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# Checklists and illustrative financial statements for life insurance companies : a financial accounting and reporting practice aid, March 2000 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Robert Durak

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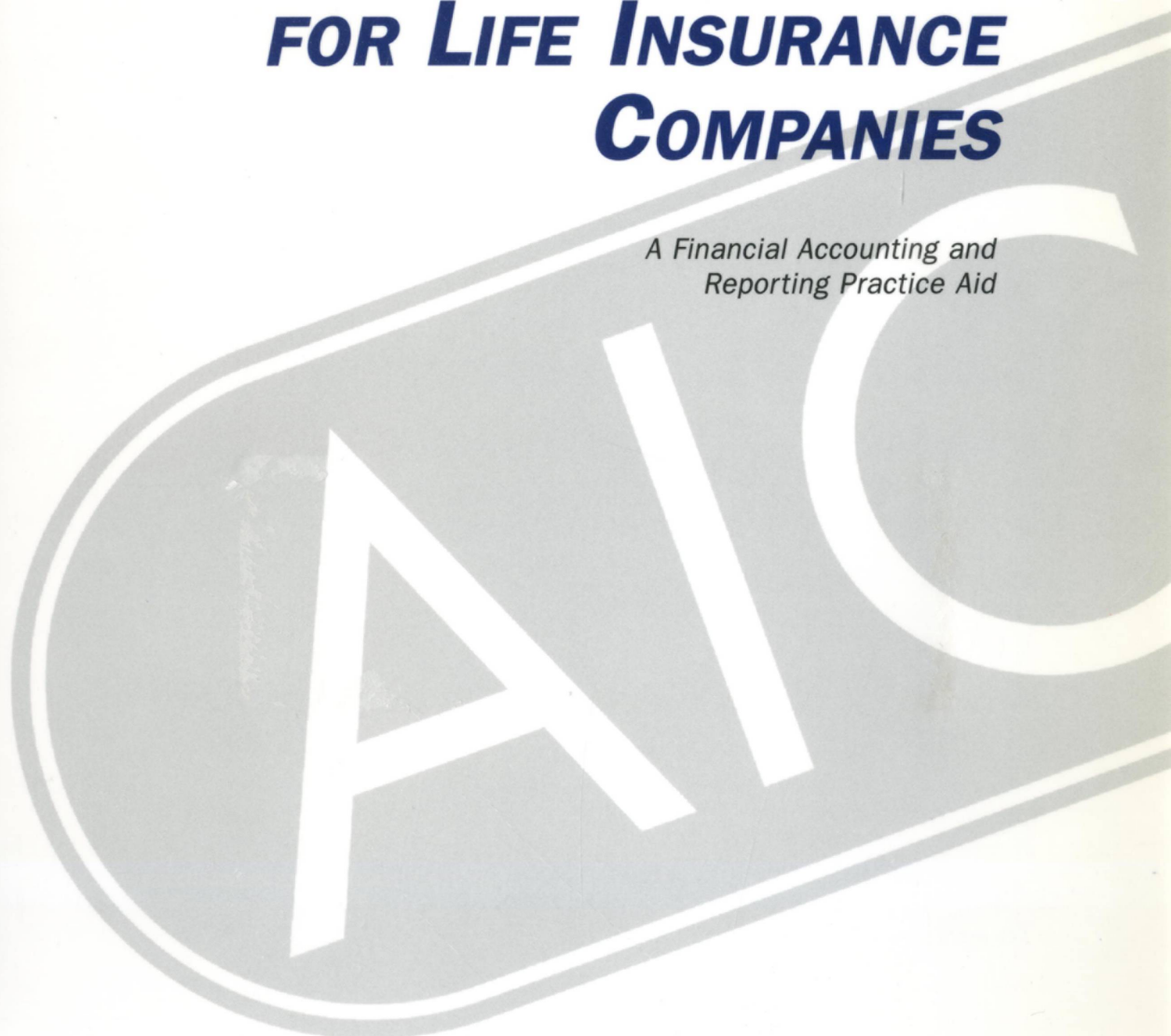
**AICPA**

**MARCH 2000 EDITION**

**CHECKLISTS  
AND ILLUSTRATIVE  
FINANCIAL STATEMENTS  
FOR LIFE INSURANCE  
COMPANIES**

*A Financial Accounting and  
Reporting Practice Aid*

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS



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# **CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR LIFE INSURANCE COMPANIES**

*A Financial Accounting and  
Reporting Practice Aid*

*Edited by*

**Robert Durak, CPA**

*Technical Manager, Accounting and Auditing Publications*

*Checklists and Illustrative Financial Statements  
for Life Insurance Companies* has not been  
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# FSP Section 20,000

## *Checklists and Illustrative Financial Statements for Life Insurance Companies*

.01 The checklists and illustrative financial statements in this section have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated; as a result, pronouncements deemed unlikely to be encountered in financial statements of life insurance companies are not included.
- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.

.02 The financial statements and notes checklist has been updated to include relevant disclosure guidance in accounting pronouncements issued through September 30, 1999. Those pronouncements include:

- Statement of Financial Accounting Standards (SFAS) No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133*
- FASB Interpretation No. 43, *Real Estate Sales*
- FASB Technical Bulletin No. 97-1, *Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option*
- AICPA Statement of Position (SOP) 99-3, *Accounting and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*
- AICPA Practice Bulletin 15, *Accounting by the Issuer of Surplus Notes*
- FASB Emerging Issues Task Force (EITF) consensus positions adopted at meetings of the EITF held through September 1999
- AICPA Statement on Auditing Standards (SAS) No. 87, *Restricting the Use of an Auditor’s Report*
- AICPA Statement on Standards for Accounting and Review Services (SSARS) No. 7, *Omnibus Statement on Standards for Accounting and Review Services—1992*
- AICPA Audit and Accounting Guide *Audits of Stock Life Insurance Companies*

.03 A description of the insurance industry and a description of common accounting and reporting features of stock life insurance companies are presented in the AICPA Industry Audit Guide *Audits of Stock Life Insurance Companies*.

.04 The checklists and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.



.05 Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline at 1-888-777-7077.

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*Note:* This publication was extracted from sections 20,000 through 20,600 of the *AICPA Financial Statement Preparation Manual* (FSP).

# FSP Section 20,100

## Introduction

.01 Life insurance companies provide for the pooling of risks among many persons who are exposed to similar risks. The provisions of the AICPA Industry Audit Guide *Audits of Stock Life Insurance Companies*, apply to stock life insurance companies. For mutual insurance companies, financial statements prepared on a statutory basis are considered, in practice, to be prepared in accordance with generally accepted accounting principles ("GAAP").<sup>1</sup> AICPA *Professional Standards*, AU section 623.09, *Special Reports*, states that "when reporting on financial statements prepared on a comprehensive basis of accounting other than GAAP, the auditor should consider whether the financial statements (including accompanying notes) include all informative disclosures that are appropriate for the basis of accounting used." AU section 623.10 states that when "the financial statements (prepared on another comprehensive basis of accounting) contain items that are the same as, or similar to, those in financial statements prepared in conformity with GAAP, similar disclosures are appropriate." Therefore, the checklists and illustrative financial statements contained herein may apply to mutual life insurance companies as well as to statutory financial statements. The auditor should refer to AU section 623, *Special Reports*, Auditing Interpretation 9623, *Evaluation of the Appropriateness of Informative Disclosures in Insurance Enterprises' Financial Statements Prepared on a Statutory Basis*, and the National Association of Insurance Commissioners' ("NAIC") Annual Statement instruction, *Annual Audited Financial Reports*.

.02 The National Association of Insurance Commissioners (NAIC) has undertaken a project to codify SAP because the current prescribed-or-permitted statutory accounting model results in practices that may vary not only from state to state, but also for insurance entities within a state. The codification is expected to result in a hierarchy of statutory accounting practices that will provide a comprehensive basis of accounting that can be applied consistently to all insurance entities. In March 1998, the NAIC adopted the Codification of Statutory Accounting Principles. The new guidance will become effective January 1, 2001 and will be referred to as the NAIC Accounting Practices and Procedures Manual. The effect of this new guidance will be significant. The AICPA is currently reviewing its guidance on reporting statutory accounting practices and will modify existing guidance as necessary.

## Significant Changes

.03 Presented below is a list of significant changes to the current edition of the Stock Life Insurance checklist. Changes normally result from new authoritative pronouncements issued since the last edition of the checklist. Changes may also represent improvements in the manner in which the checklist is presented.

- SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106*—This Statement revises employers' disclosures about pension and other postretirement benefit plans. The disclosure and presentation requirements of this Statement have been added into the checklist.
- SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*—This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The disclosures of SFAS 133 has been incorporated into the checklist.

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<sup>1</sup> The AICPA has a project underway to prepare an Audit and Accounting Guide, *Life and Health Insurance Entities*, which covers audits of mutual life insurance companies as well as stock life insurance companies. The new Audit and Accounting Guide would replace the Industry Audit Guide *Audits of Stock Life Insurance Companies*.

- SFAS 134, *Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise*, an amendment of FASB Statement No. 65—This Statement amends SFAS 65 to require that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities or other retained interests based on its ability and intent to sell or hold those investments. The disclosure requirements of this Statement have not been reflected in the checklist, due to the fact that SFAS 134 concerns accounting for mortgage-backed securities retained after securitization—an area not normally relative to insurance companies.
  - SOP 97-3, *Accounting by Insurance and Other Enterprises for Insurance-Related Assessments*—This SOP establishes the accounting by insurance and other enterprises for assessments related to insurance activities. The disclosure requirements of this Statement have been reflected in the checklist.
  - SOP 98-7, *Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk*—This Statement provides guidance on how to account for insurance and reinsurance contracts that do not transfer insurance risk. The disclosure requirements of this Statement have been reflected in the checklist.
-

# FSP Section 20,200

## *Checklists—General*

.01 AICPA disclosure checklists have been designed as practice aids to assist accountants in the preparation of financial statements and to assist auditors in their evaluation of the adequacy of disclosures in the financial statements they audit. Authoritative literature does not require the use of checklists, nor does it prescribe their format or content.

.02 This checklist consists of a number of questions or statements that are accompanied by references to the established sources of GAAP in which the disclosure requirements are found. These sources include Statements of Financial Accounting Standards, FASB Interpretations, Accounting Principles Board Opinions, Accounting Research Bulletins, AICPA Audit and Accounting Guides, AICPA Statements of Position, and EITF consensuses. Checklists are designed to serve as convenient memory aids but should not be used as a substitute for direct reference to authoritative literature.

.03 These checklists consist of a number of questions or statements that are accompanied by references to applicable authoritative pronouncements. The checklists provide spaces for checking off or initialing each question or point to indicate that it has been considered. Users should check or initial:

- **Yes**—If the disclosure is required and has been made appropriately.
- **No**—If the disclosure is required but is not made.
- **N/A (Not applicable)**—If the disclosure is not required to be made.

Users may find it helpful to include references to the place where each disclosure for which a “Yes” is indicated can be found in the financial statements. It may also be helpful to include either on the checklist or elsewhere the reasons that items marked “N/A” do not apply in the circumstances of the particular report.

.04 It is important that the effect of any “No” response be considered on the auditor’s report. A “No” response that is material to the financial statements may warrant the issuance of a qualified or adverse report on the financial statements. (See paragraphs 35–60 of SAS No. 58, *Reports on Audited Financial Statements*, as amended [AICPA, *Professional Standards*, vol. 1, AU sec. 508.35–60]. If a “No” response is indicated, the authors recommend that a notation be made in the margin to explain why the disclosure was not made (for example, because the item was not considered to be material to the financial statements) or to indicate the effect that the response will have on the auditor’s report.

.05 At the beginning of certain sections, a ☐ appears in the “N/A” column. If the entire section is deemed to be non-applicable, place a check mark in the ☐ and proceed to the next section.

.06 As you use this checklist, please remember that:

- The exercise of sound professional judgment is of paramount importance in applying the checklist provisions.
- The checklist may require modification based on the engagement circumstances.
- The checklist may not be all-inclusive.
- Users need to modify the checklist for any pronouncements issued subsequent to those mentioned in the checklist.



**.07** These checklists and illustrative materials have been prepared by the AICPA staff. They have not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA and do not represent official positions or pronouncements of the AICPA.

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# FSP Section 20,300

## *Financial Statements and Notes Checklist*

.01 This checklist has been developed by the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid for use by preparers and auditors of financial statements.

This checklist includes disclosures commonly encountered in the financial statements of stock life insurance companies and reporting issues likely to be encountered by accountants who audit, compile, and review those types of financial statements. They do not include all disclosures required by GAAP or address all reporting situations that may arise in performing engagements in accordance with GAAS and SSARS.

### .02 Explanation of References:

SFAS =	FASB Statement of Financial Accounting Standards
FASBI =	FASB Financial Accounting Standards Board Interpretation
AC =	Reference to section number in FASB <i>Accounting Standards—Current Text</i>
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
FTB =	Technical Bulletin issued by the staff of the FASB
AAG =	Industry Audit Guide <i>Audits of Stock Life Insurance Companies</i>
SOP =	AICPA Statement of Position
EITF =	Emerging Issues Task Force Consensus
PB =	AICPA Practice Bulletin
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
NAIC =	NAIC Accounting Practices and Procedures Manual for Life, Accident, and Health Insurance Companies
App. K =	Appendix K of AAG containing SOP 92-3, <i>Accounting for Foreclosed Assets</i>
App. N =	Appendix N of AAG containing SOP 94-5, <i>Disclosures of Certain Matters in the Financial Statements of Insurance Enterprises</i>

### .03 Checklist Questionnaire:

This checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the life insurance company.

*Place ✓ by  
Applicable Sections*

- Balance Sheet

A. General	_____
B. Cash	_____
C. Investment Securities	_____
D. Investments Accounted for by the Equity Method	_____
E. Impairment of a Loan	_____
F. Accounts and Notes Receivable and Agents' Balances	_____
G. Reinsurance Receivables	_____

***Place ✓ by  
Applicable Sections***

H. Lease Finance Receivables	_____
I. Deferred Acquisition Costs	_____
J. Property and Equipment	_____
K. Lessee Leases	_____
L. Other Assets	_____
M. Separate Account Assets	_____
N. Deposit Accounting	_____
O. Policy Liabilities	_____
P. Income Taxes	_____
Q. Current Liabilities, Notes Payable, and Long-Term Debt	_____
R. Other Liabilities	_____
S. Shareholders' Equity	_____
• Income Statement	
A. Premium Revenue	_____
B. Investment Income	_____
C. Other Income	_____
D. Benefits and Expenses	_____
E. Income Taxes	_____
F. Discontinued Operations	_____
G. Extraordinary Items	_____
H. Earnings Per Share	_____
I. Comprehensive Income	_____
J. Other	_____
• Statement of Changes in Shareholders' Equity	_____
• Statement of Cash Flows	_____
• General	
A. Titles and References	_____
B. Disclosure of Accounting Policies	_____
C. Comparative Financial Statements	_____
D. Accounting Changes	_____
E. Risks and Uncertainties	_____
F. Contingencies and Commitments	_____
G. Environmental Remediation Liabilities	_____
H. Related-Party Transactions and Economic Dependency	_____
I. Employee Stock Ownership Plans	_____
J. Pensions and Other Postretirement Benefits	_____
K. Consolidations	_____
L/L1. Financial Instruments	_____
M. Foreign Currency	_____
N. Futures Contracts	_____
O. Derivatives	_____
P. Transfers and Servicing of Financial Assets	_____
Q. Nonmonetary Transactions	_____
R. Subsequent Events	_____
S. Costs to Exit an Activity	_____
T. Business Combinations	_____
U. Segment Information	_____
V. Postemployment Benefits	_____
W. Stock Compensation Plans	_____

- Auditors' Reports Checklist \_\_\_\_\_
- Supplemental Information for Life Insurance Companies That Are Securities and Exchange Commission Registrants \_\_\_\_\_

*Note:* Reminder—A "no" answer is indicative of a potential GAAP departure. The reason for the "no" answer and the resolution of the matter should be documented in the working papers.

## Balance Sheet

### A. General

1. For classified balance sheets, are assets and liabilities segregated into current and noncurrent classifications, with totals presented for current assets and current liabilities?  
[ARB 43, Ch. 3A, pars. 2–8; SFAS 78, pars. 5 and 13 (AC B05.102–.109B); SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3, par. 2 (AC B05.501–.503)]
2. Are assets not expected to be realized during the current operating cycle classified as noncurrent?  
[ARB 43, Ch. 3A, pars. 5 and 6 (AC B05.106 and .107)]
3. Are valuation allowances for assets shown as deductions from their related assets with appropriate disclosure?  
[APB 12, par. 3 (AC V18.102)]

Yes      No      N/A

### B. Cash

1. Is restricted cash appropriately segregated from cash available for current operations?  
[ARB 43, Ch. 3A, par. 6 (AC B05.107)]
2. Are restrictions on cash appropriately disclosed?  
[SFAS 5, pars. 18 and 19 (AC C59.120)]
3. Is the policy for determining cash equivalents disclosed?  
[SFAS 95, par. 10 (AC C25.108)]
4. If the company has material bank overdrafts or material balance of undelivered checks as of the balance-sheet date, are:
  - a. Bank overdrafts presented as a separate caption within current liabilities?
  - b. Undelivered checks classified as accounts payable?  
[Generally accepted]
5. If a concentration of credit risk arises from deposits in excess of federally insured limits, is it disclosed?  
[SFAS 105, par. 20 (AC F25.115)]

*Note:* SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, which is effective for all fiscal quarters of fiscal years beginning after June 15, 2000, supersedes SFAS 105, and therefore this question. If SFAS 133 has been adopted, refer to the disclosure requirements listed in section L1.



**Practice Tip**

Be sure that the amount of cash and cash equivalents displayed on the balance sheet equals the amount of cash and cash equivalents displayed on the statement of cash flows.

**C. Investment Securities**

- |  |  |  |  |
|--|--|--|--|
| <p>1. Are there separate captions for each of the following investment categories:</p> <p style="margin-left: 20px;">a. Fixed-maturity securities?</p> <p style="margin-left: 20px;">b. Mortgage loans on real estate?</p> <p style="margin-left: 20px;">c. Investment real estate?</p> <p style="margin-left: 20px;">d. Policy loans?</p> <p style="margin-left: 20px;">e. Other long-term investments?<br/>[AAG, App. A]</p> <p>2. Are debt and equity securities classified as (a) held-to-maturity, (b) available-for-sale, or (c) trading?<br/>[SFAS 115, par. 6 (AC I80.103)]</p> <p>3. If an enterprise presents a classified statement of financial position, are all individual held-to-maturity securities, individual available-for-sale securities, and individual trading securities reported as either current or noncurrent, as appropriate, under the provisions of ARB No. 43, Chapter 3A, "Working Capital—Current Assets and Current Liabilities"?<br/>[SFAS 115, par. 17 (AC I80.116), as amended by SFAS 135]</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
|--|--|--|--|

**Practice Tip**

Presentation of individual amounts for trading securities, held-to-maturity securities, and available-for-sale securities on the face of the balance sheet is not required as long as the information is provided in the notes to the financial statements.

**Note:** SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, modifies the disclosure requirements of SFAS 115 paragraphs 19, 20, 21 and 22. If SFAS 133 has been adopted, replace Steps 4, 5, 6, and 7 below with Steps 17, 18, 19, and 20 in Section L1 of the General section of this checklist.

- |  |   |   |   |
|--|---|---|---|
| <p>4. For investments in debt and marketable equity securities classified as available-for-sale or held-to-maturity, are the following disclosures made by major-security type, for each balance sheet presented:</p> <p style="margin-left: 20px;">a. Aggregate fair value?</p> <p style="margin-left: 20px;">b. Gross unrealized holding gains or losses?</p> <p style="margin-left: 20px;">c. Amortized cost basis?<br/>[SFAS 115, par. 19 (AC I80.118)]</p> <p style="margin-left: 20px;">d. Disclosure of major-security types including:</p> <p style="margin-left: 40px;">(1) Equity securities?</p> <p style="margin-left: 40px;">(2) Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies?</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
|--|---|---|---|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(3) Debt securities issued by states of the United States and political subdivisions of the states?	_____	_____	_____
(4) Debt securities issued by foreign governments?	_____	_____	_____
(5) Corporate debt securities?	_____	_____	_____
(6) Mortgage-backed securities?	_____	_____	_____
(7) Other debt securities? [SFAS 115, par. 19 (AC I80.118)]	_____	_____	_____
5. For investments in debt securities classified as available-for-sale and separately for securities classified as held-to-maturity:			
a. Is disclosure made about their contractual maturities as of the date of the latest balance sheet presented (maturity information may be combined in appropriate groupings)?	_____	_____	_____
b. Is disclosure made of the fair value and the amortized cost of debt securities in at least four maturity groupings:	_____	_____	_____
(1) Within one year?	_____	_____	_____
(2) After one year through 5 years?	_____	_____	_____
(3) After five years through 10 years?	_____	_____	_____
(4) After 10 years?	_____	_____	_____
c. If securities not due at a single date are allocated over several maturity groupings, is the basis for allocation disclosed? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
6. For each period for which an income statement is presented, are the following disclosed:			
a. The proceeds from sales of available-for-sale securities and gross realized gains and losses from those sales?	_____	_____	_____
b. The basis on which cost was determined in computing realized gain or loss (i.e., specific identification, average cost, or other method used)?	_____	_____	_____
c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?	_____	_____	_____
d. The change in net unrealized holding gain or loss on available-for-sale securities that has been included in other comprehensive income?	_____	_____	_____
e. The change in net unrealized holding gain or loss on trading securities that has been included in earnings? [SFAS 115, par. 21 (AC I80.120)]	_____	_____	_____
7. For any sales of, or transfers from, securities classified as held-to-maturity, are the following disclosed for each period for which an earnings statement is presented:			
a. Amortized cost amount of the sold or transferred security?	_____	_____	_____
b. Related realized or unrealized gain or loss?	_____	_____	_____
c. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC I80.121)]	_____	_____	_____

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**Note:** SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, which is effective for all fiscal quarters of fiscal years beginning after June 15, 2000, supersedes SFAS 105. If SFAS 133 has been adopted, refer to the disclosure requirements listed in section L1.

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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. Are significant concentrations of credit risk arising from concentrations of securities of a particular issuer disclosed? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
9. Are mortgage loans that are purchased at a discount or premium reported at amortized cost with an allowance for uncollectible amounts, if any? [SFAS 60, par. 47 (AC In6.153)]	_____	_____	_____
10. Are changes in the allowance for uncollectible amounts relating to mortgage loans reported in income as prescribed in SFAS 114, <i>Accounting by Creditors for Impairment of a Loan</i> ? [SFAS 60, par. 47, as amended by SFAS 114, par. 23 (AC In6.153)]	_____	_____	_____
11. Are real estate investments reported at cost less accumulated depreciation? [SFAS 60, par. 48, as amended by SFAS 121, par. 28a (AC In6.154)]	_____	_____	_____
12. Are reductions in the carrying amounts of real estate investments resulting from the application of SFAS 121, <i>Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of</i> , included in realized gains and losses? [SFAS 60, par. 48, as amended by SFAS 121, par. 28b (AC In6.154)]	_____	_____	_____
13. If investments in high-risk CMOs are significant, are the following disclosures made in the financial statements: <sup>1</sup>			
a. The effective yield calculated as of the reporting date, either for each CMO or for the CMO portfolio (this yield will be used to accrue income in the following period)?	_____	_____	_____
b. The carrying amount and fair value of investments in high-risk CMOs?	_____	_____	_____
(1) If market quotations are not available, are estimates made? [EITF 89-4; SFAS 125, par. 14 (AC F38.107)]	_____	_____	_____
14. For those entities that enter into options with no intrinsic value at acquisition in order to purchase securities accounted for under SFAS 115, is disclosure made of the accounting policy for the premium paid (time value) to acquire the option that is classified as held-to-maturity or available-for-sale disclosed? [EITF 96-11]	_____	_____	_____
15. Are mortgage loans that are acquired at par value reported at outstanding principal balances? [SFAS 60, par. 47 (AC In6.153)]	_____	_____	_____
<b>D. Investments Accounted for by the Equity Method</b>			
1. Are investments in common stock shown in the balance sheet of the investor as a single amount, and is the investor's share of earnings or losses of the investee shown in the income statement as a single amount (except for extraordinary items or prior period adjustments)? [APB 18, par. 19 (AC I82.109c)]	_____	_____	_____
2. Are the following disclosures made for investments in common stock accounted for by the equity method:			
a. The name of each investee and their percentage of ownership of common stock?	_____	_____	_____

<sup>1</sup> These disclosure requirements do not apply to instruments subject to SFAS 125, paragraph 14.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The accounting policies of the investor with respect to investments in common stock?	_____	_____	_____
c. The difference between the amount at which an investment is carried and the amount of underlying equity in net assets?	_____	_____	_____
d. The accounting treatment of the difference described in c.?	_____	_____	_____
e. For investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price? (This is not required for investments in common stock of subsidiaries.)	_____	_____	_____
f. For investments in common stock, corporate joint ventures, or other investments which are in the aggregate material in relation to the financial position or results of operations of an investor, summarized information as to assets, liabilities, and results of operation of the investees as appropriate?	_____	_____	_____
g. Material effects of conversions of outstanding convertible securities, exercises, or contingent issuances? [APB 18, par. 20 (AC I82.110)]	_____	_____	_____
3. If the reporting entity holds 20 percent or more of the voting stock of a significant investee corporation but does not account for the investment using the equity method, are the following disclosed:			
a. The name of such investee?	_____	_____	_____
b. The reasons why the equity method is not considered appropriate? [APB 18, par. 20, fn. 13 (AC I82.110, fn. 14)]	_____	_____	_____
4. If the reporting entity holds less than 20 percent of the voting stock of a significant investee corporation and accounts for the investment using the equity method, are the following disclosed:			
a. The name of such investee?	_____	_____	_____
b. The reasons why the equity method is considered appropriate? [APB 18, par. 20, fn. 13 (AC I82.110, fn. 14)]	_____	_____	_____

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### Practice Tip

The significance of an investment to the investor's financial position and results of operations should be considered in evaluating the extent of disclosures relating to the financial position and results of operations of an investee.

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### E. Impairment of a Loan

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Is the allowance deducted from the related assets?<br>[APB 12, par. 3 (AC V18.102)]  | _____ | _____ | _____ |
| 2. Is the following information disclosed, either in the body of the financial statements or in the accompanying notes for impaired loans: <sup>2</sup> |       |       |       |

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<sup>2</sup> In certain circumstances, information about an impaired loan that has been restructured in a troubled debt restructuring involving a modification of terms need not be included in the disclosures in Steps 2.a. and 2.b. (1)–(3).



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. As of the date of each balance sheet presented:			
(1) Total recorded investment in the impaired loans at the end of each period and the amount of the recorded investment for which there is a related allowance for loan losses?	_____	_____	_____
(2) The amount of the allowance?	_____	_____	_____
(3) The amount of the recorded investment for which no allowance for loan losses was recorded?	_____	_____	_____
(4) The company's policy for recognizing interest on impaired loans, including how cash receipts are recorded?	_____	_____	_____
b. For each period for which a statement of income is presented:			
(1) Average recorded investments?	_____	_____	_____
(2) Related amount of interest income recognized using the cash basis method of accounting during the time within the period the loans were impaired?	_____	_____	_____
(3) If practicable, the amount of interest income recognized using cash basis method of accounting during the time within the period the loans were impaired?	_____	_____	_____
(4) The activity in the allowance for loan losses related to impaired loans including the following:			
(i) Opening balance?	_____	_____	_____
(ii) Additions charged to operations?	_____	_____	_____
(iii) Direct write-down charged against the allowance?	_____	_____	_____
(iv) Recovery of amounts previously charged off?	_____	_____	_____
(v) Ending balance?	_____	_____	_____
[SFAS 114, par. 20, as amended by SFAS 118, par. 6 (AC 108.118 and 118A)]			
3. When a loan is restructured in a troubled debt restructuring (as defined in SFAS 15) into two (or more) loan agreements, are the restructured loans considered separately when assessing the applicability of the disclosures described in Step 2 above?	_____	_____	_____
[EITF 96-22]			
<b>F. Accounts and Notes Receivable and Agents' Balances</b>			
1. Are uncollected life insurance premiums and deferred premiums included in assets?	_____	_____	_____
[AAG, pars. 5.02 and 5.03]			
2. Are accident and health uncollected premiums due within three months of the reporting date included in assets?	_____	_____	_____
[AAG, par. 5.05]			
3. Are amounts due from reinsurers on paid losses on life and accident and health insurance included as assets?	_____	_____	_____
[AAG, par. 5.06]			
4. Are hypothecation or other pledging of receivables disclosed?	_____	_____	_____
[SFAS 5, pars. 18 and 19 (AC C59.120)]			
5. Are accounts and notes receivable from officers, employees, and affiliated entities shown separately with appropriate disclosures?	_____	_____	_____
[ARB 43, Ch. 1A, par. 5 (AC R36.105)]			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. If a note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?	_____	_____	_____
b. Does the disclosure include the effective interest rate and face amount of the note?	_____	_____	_____
c. Is amortization of discount or premium reported as interest in the income statement? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
7. Is the unamortized balance of loan origination, commitment, and other fees and costs and purchase premiums and discounts that is being recognized as an adjustment of yield reported as part of the loan balance to which it relates? [SFAS 91, par. 21 (AC I20.120)]	_____	_____	_____

#### **G. Reinsurance Receivables**

1. Are fronting arrangements treated as reinsurance arrangements for purposes of disclosures required by SFAS 60 and SFAS 113? [SFAS 113, par. 6 (AC In6.169)]	_____	_____	_____
2. Are the following disclosed in relation to ceded insurance transactions:			
a. Nature of the transaction(s)?	_____	_____	_____
b. Purpose of the transaction(s)?	_____	_____	_____
c. Effect of the transaction(s)?	_____	_____	_____
d. The fact that the insurer is not relieved of its primary obligation to the policyholder in a reinsurance transaction? [SFAS 113, par. 27a (AC In6.191a)]	_____	_____	_____
3. Are the following disclosed for short-duration reinsurance contracts on both a written and an earned basis:			
a. Premiums from direct business?	_____	_____	_____
b. Reinsurance assumed?	_____	_____	_____
c. Reinsurance ceded? [SFAS 113, par. 27b (AC In6.191b)]	_____	_____	_____
4. Are the following disclosed for long-duration reinsurance contracts:			
a. Premiums and amounts assessed against policyholders from direct business?	_____	_____	_____
b. Reinsurance assumed?	_____	_____	_____
c. Reinsurance ceded?	_____	_____	_____
d. Premiums and amounts earned? [SFAS 113, par. 27b (AC In6.191b)]	_____	_____	_____
5. Are the methods used for income recognition on reinsurance contracts disclosed? [SFAS 113, par. 27c (AC In6.191c)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Are concentrations of credit risk associated with reinsurance receivables and prepaid reinsurance premiums disclosed for a ceding enterprise under the provisions of SFAS 105? (If SFAS 133, <i>Accounting for Derivative Instruments and Hedging Activities</i> , has been adopted, the reference to SFAS 105 in this question is replaced by paragraph 15a of SFAS 107, as amended by SFAS 133.) [SFAS 113, par. 28 (AC In6.192)]	_____	_____	_____
7. Are the following items reported separately as assets for those companies participating in ceding transactions:			
a. Estimated reinsurance receivables arising from ceding transactions?	_____	_____	_____
b. Amounts paid to the reinsurer relating to the unexpired portion of reinsured contracts (prepaid reinsurance premiums)? [SFAS 113, par. 14 (AC In6.178)]	_____	_____	_____
8. Are amounts receivable and payable between the ceding company and an individual reinsurer offset only when a right of offset exists as defined in FASB Interpretation 39? [SFAS 113, par. 15 (AC In6.179)]	_____	_____	_____
9. Are the amounts of earned premiums ceded and recoveries recognized under reinsurance contracts reported in the statements of earnings as separate line items or disclosed in the notes? [SFAS 113, par. 16 (AC In6.180)]	_____	_____	_____
<b>H. Lease Finance Receivables</b>			
1. Do disclosures include:			
a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?	_____	_____	_____
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?	_____	_____	_____
c. Total contingent rentals included in income for each period for which a statement of income is presented? [SFAS 13, par. 23a, as amended by SFAS 91, par. 25d (AC L10.119a)]	_____	_____	_____
2. Are leasing arrangements described? [SFAS 13, pars. 23 and 29 (AC L10.119 and .125); SFAS 91, par. 25 (AC L10.119a(1)–(3)); SFAS 98, pars. 17–19 (AC L10.130k–m)]	_____	_____	_____
3. Are leveraged leases appropriately accounted for and reported? [SFAS 13, pars. 41–47 (AC L10.143–.149)]	_____	_____	_____
<b>I. Deferred Acquisition Costs</b>			
1. Are unamortized acquisition costs presented in the balance sheet as a deferred charge? [AAG, pars. 8.37 and 10.03]	_____	_____	_____
2. Are the following disclosed relating to deferred acquisition costs:			
a. The nature of costs capitalized?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The method of amortizing these costs?	_____	_____	_____
c. The amount of these costs amortized for the period? [AAG, pars. 8.37 and 10.03; SFAS 60, par. 60c (AC In6.166c)]	_____	_____	_____
3. Is the fact that the company considers anticipated investment income in determining if a premium deficiency relating to short-duration contracts exists disclosed? [SFAS 60, par. 60e (AC In6.166e)]	_____	_____	_____
<b>J. Property and Equipment</b>			
1. Is the carrying basis of property and equipment disclosed? [AAG, App. A; APB 12, par. 5 (AC D40.105)]	_____	_____	_____
2. For depreciable assets, does disclosure include:			
a. Depreciation expense for each period for which an income statement is presented?	_____	_____	_____
b. Balances of major classes of depreciable assets, by nature or function, at the balance-sheet date?	_____	_____	_____
c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance-sheet date?	_____	_____	_____
d. A general description of the method or methods used in computing depreciation for major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)]	_____	_____	_____
3. Are pledged assets and material commitments for property expenditures disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
4. For any accounting period in which interest costs are capitalized, is the total amount of interest cost incurred during the period, and the amount thereof that is capitalized, disclosed? [SFAS 34, par. 21b (AC I67.118)]	_____	_____	_____
5. Is the amount of interest cost incurred and charged to expense during the period disclosed for an accounting period in which no interest cost is capitalized? [SFAS 34, par. 21a (AC I67.118)]	_____	_____	_____
6. For an existing property with an asbestos problem, are the costs incurred to treat the problem, if charged to expense, not classified as an extraordinary item? [EITF 89-13]	_____	_____	_____
7. If an impairment loss is recognized for assets to be held or used, are the following disclosures made in financial statements that include the period of impairment write-down:			
a. A description of the impaired assets and the facts and circumstances leading to the impairment?	_____	_____	_____
b. The amount of the impairment and how fair value was determined?	_____	_____	_____
c. The caption in the statement of income in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. The business segment(s) affected, if applicable? [SFAS 121, par. 14 (AC I08.133)]	_____	_____	_____
8. If assets to be disposed of are accounted for in accordance with paragraphs 15–17 of SFAS 121, are the following disclosed in financial statements that include a period in which those assets are held:			
a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?	_____	_____	_____
b. The business segment(s) in which assets to be disposed of are held, if applicable?	_____	_____	_____
c. The loss, if any, resulting from the application of paragraph 15 of SFAS 121?	_____	_____	_____
d. The gain or loss, if any, resulting from changes in the carrying amounts of assets to be disposed of that arises from application of paragraph 17 of SFAS 121?	_____	_____	_____
e. The caption in the statement of income in which the gains or losses in c. and d. are aggregated if those gains have not been presented as a separate caption or reported parenthetically on the face of the statement?	_____	_____	_____
f. The results of operations for assets to be disposed of to the extent that those results are included in the company's statement of income for the period and can be identified? [SFAS 121, par. 19 (AC I08.138)]	_____	_____	_____
9. If an impairment loss is recognized, is it reported as a component of income from continuing operations? [SFAS 121, pars. 13 and 18 (AC I08.137)]	_____	_____	_____

#### **K. Lessee Leases**

1. Is the following information disclosed with respect to capital leases:			
a. The gross amount of assets recorded under capital leases as of the date of each balance sheet presented by major classes according to nature or function (this information may be combined with the comparable information for owned assets)?	_____	_____	_____
b. Future minimum lease payments as of the date of the latest balance sheet presented, in the aggregate and for each of the next five fiscal years, with separate deductions from the total for executory costs, including any profit thereon that is included in the minimum lease payments and for the amount of the imputed interest necessary to reduce the net minimum lease payments to present value?	_____	_____	_____
c. The total of minimum sublease rentals to be received in the future under noncancelable subleases as of the date of the latest balance sheet presented?	_____	_____	_____
d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16 (AC L10.112)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. Separate identification of:			
(1) Assets recorded under capital leases?	_____	_____	_____
(2) Accumulated amortization of capital leases?	_____	_____	_____
(3) Obligations under capital leases?	_____	_____	_____
(4) Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense? [SFAS 13, par. 13 (AC L10.112)]	_____	_____	_____
2. Are the following disclosed for operating leases that have initial or remaining noncancelable lease terms in excess of one year:			
a. Future minimum rental payments required, as of the date of the latest balance sheet presented, in the aggregate, and for each of the five succeeding fiscal years?	_____	_____	_____
b. The total of minimum rentals to be received in the future under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16 (AC L10.112)]	_____	_____	_____
3. For all operating leases, do disclosures include rental expense for each period for which an income statement is presented, with separate amounts for minimum rentals, contingent rentals, and sublease rentals (rental payments under leases with terms of a month or less that are not renewed need not be included)?	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements including, but not limited to, the following:			
a. The basis on which contingent rental payments are determined?	_____	_____	_____
b. The existence and terms of renewal or purchase options and escalation clauses?	_____	_____	_____
c. Restrictions imposed by lease agreements, such as those concerning dividends, additional debt, and further leasing? [SFAS 13, par. 16 (AC L10.112)]	_____	_____	_____
5. Is the nature and extent of leasing transactions with related parties disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____
6. If the conditions of EITF 90-15 are met, does the lessee consolidate special-purpose entities established for both the construction and subsequent lease of an asset and does consolidation occur at the inception of the lease rather than at the beginning of the lease term? [EITF 90-15]	_____	_____	_____
<b>L. Other Assets</b>			
1. Do disclosures include the method and period of amortization of intangible assets? [APB 22, par. 13 (AC A10.106)]	_____	_____	_____
2. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired in a combination initiated after September 30, 1982, is the method and period of amortization disclosed? [APB 17, par. 30 (AC I60.111)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>M. Separate Account Assets</b>			
1. Are separate account assets reported as summary totals in the financial statements? [SFAS 60, par. 54 (AC In6.160)]	_____	_____	_____
<b>N. Deposit Accounting</b>			
1. Has a description of the contracts accounted for as deposits and the separate amounts of total deposit assets and total deposit liabilities reported in the statement of financial position been disclosed? [SOP 98-7, par. 18]	_____	_____	_____
2. Has the following information regarding the changes in the recorded amount of the deposit arising from an insurance or reinsurance contract that transfers only significant underwriting risk been disclosed?			
a. The present values of initial expected recoveries that will be reimbursed under the insurance or reinsurance contracts that have been recorded as an adjustment to incurred losses?	_____	_____	_____
b. Any adjustment of amounts initially recognized for expected recoveries? (The individual components of the adjustment (meaning, interest accrual, the present value of additional expected recoveries, and the present value of reductions in expected recoveries) should be disclosed separately.)	_____	_____	_____
c. The amortization expense attributable to the expiration of coverage provided under the contract? [SOP 98-7, par. 19]	_____	_____	_____
<b>O. Policy Liabilities</b>			
1. Is the aggregate reserve for life policies presented net of reserves ceded under reinsurance arrangements? [AAG, par. 6.06]	_____	_____	_____
2. Is the liability for supplementary contracts without life contingencies and dividend accumulations reflected separately in the annual statement? [AAG, par. 6.07]	_____	_____	_____
3. Is the basis for estimating the liabilities for unpaid claims and claim adjustment expenses disclosed? [SFAS 60, par. 60a (AC In6.166a)]	_____	_____	_____
4. Are the methods and assumptions used in estimating the liability for future policy benefits and the average rate of assumed investment yields in effect for the current year disclosed? [SFAS 60, par. 60b (AC In6.166b)]	_____	_____	_____
5. Is the carrying amount of liabilities for unpaid claims and claim adjustment expenses relating to short-duration contracts that are presented at present value in the financial statements and the range of interest rates used to discount those liabilities disclosed? [SFAS 60, par. 60d (AC In6.166d)]	_____	_____	_____
6. For each fiscal year for which an income statement is presented is the following information about the liability for unpaid claims and claim adjustment expenses disclosed:			
a. The balance in the liability for unpaid claims and claim adjustment expenses at the beginning and end of each fiscal year presented, and the related amount of reinsurance recoverable?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Incurred claims and claim adjustment expenses with separate disclosure of the provision of insured events of the current fiscal year and of increases or decreases in the provision for insured events of prior fiscal years?	_____	_____	_____
c. Payments of claims and claim adjustment expenses with separate disclosure of payments of claims and claim adjustment expenses attributable to insured events of the current fiscal year and to insured events of prior fiscal years? [SOP 94-5, par. 10]	_____	_____	_____
7. If changes in the provision for incurred claims and claim adjustment expenses are attributable to insured events of prior fiscal years are the following disclosed in the financial statements:			
a. The reasons for the change?	_____	_____	_____
b. Whether additional premiums or return premiums have been accrued as a result of the prior-year effects? [SOP 94-5, par. 10]	_____	_____	_____
8. Is the fact that the company considers anticipated investment income in determining if a premium deficiency relating to short-duration contracts exists disclosed? [SFAS 60, par. 60e (AC In6.166e)]	_____	_____	_____
9. For participating insurance, does disclosure include:			
a. The relative percentage?	_____	_____	_____
b. The method of accounting for policyholders' dividends?	_____	_____	_____
c. The amount of dividends?	_____	_____	_____
d. The amount of any additional income allocated to participating policyholders? [SFAS 60, par. 60g (AC In6.166g); AAG, pars. 10.07 and 10.08]	_____	_____	_____
10. Are the methods employed and the assumptions used in calculating policy reserves disclosed in the financial statements, and is similar information disclosed for annuities, accident and health insurance, and other material lines of business? [AAG, pars. 10.05 and 10.06]	_____	_____	_____

**Note:** SOP 95-1, *Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises* applies to life insurance contracts that have both of the following characteristics:<sup>3</sup>

- They are long-duration participating contracts that are expected to pay dividends to policyholders based on actual experience of the insurance enterprise.
- Annual policyholder dividends are paid in a manner that identifies divisible surplus and distributes that surplus in approximately the same proportion as the contracts are considered to have contributed to divisible surplus (commonly referred to in actuarial literature as the *contribution principle*).

<sup>3</sup> SFAS 120, *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts*, permits stock life insurance enterprises with participating life insurance contracts that meet the conditions listed above to account for those contracts in accordance with SOP 95-1.  
[SFAS 120, par. 6]



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. Are premiums from participating insurance contracts reported as revenue in the statement of income when due from policy holders? [SOP 95-1, par. 12]	_____	_____	_____
12. Are death and surrender benefits incurred reported as expense in the statement of income? [SOP 95-1, par. 13]	_____	_____	_____
13. Are annual policyholder dividends:			
a. Reported separately as an expense in the statement of income? [SOP 95-1, par. 14]	_____	_____	_____
14. Are the following disclosed in the financial statements with respect to participating contracts:			
a. The methods and assumptions used in estimating the liability for future policy benefits?	_____	_____	_____
b. The average rate of assumed investment yields used in estimating expected gross margins?	_____	_____	_____
c. The nature of acquisition costs capitalized, the method of amortizing those costs, and the amount of those costs amortized for the period? [SOP 95-1, par. 24]	_____	_____	_____

**P. Income Taxes**

1. Are deferred tax assets and liabilities determined for each tax-paying component (an individual company or group of companies that is consolidated for tax purposes) in each tax jurisdiction presented separately? [SFAS 109, par. 17 (AC I27.116)]	_____	_____	_____
2. Are the components of the net deferred tax liability or asset recognized in the balance sheet disclosed as follows:			
a. The total of all deferred tax liabilities?	_____	_____	_____
b. The total of all deferred tax assets?	_____	_____	_____
c. The total valuation allowance for deferred tax assets? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
3. Is the net change during the year in the total valuation allowance disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
4. Is the following information disclosed whenever a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes for any of the areas addressed by APB 23, <i>Accounting for Income Taxes—Special Areas</i> (as amended by SFAS 109, <i>Accounting for Income Taxes</i> ):			
a. A description of the types of temporary differences for which a deferred tax liability is not recognized and the types of events that would cause those temporary differences to become taxable?	_____	_____	_____
b. The cumulative amount of each type of temporary differences?	_____	_____	_____
c. The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable, or a statement that determination is not practicable?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. The amount of the deferred tax liability for temporary differences other than those in c. above (i.e., undistributed domestic earnings, the bad debt reserve for tax purposes of a U.S. savings and loan association or other qualified thrift lender, the policyholders' surplus of a life insurance enterprise, and the statutory reserve funds of a U.S. steamship enterprise) that is not recognized in accordance with the provisions of paragraphs 31 and 32 of SFAS 109 (AC I27.130 and .131)? [SFAS 109, par. 44 (AC I27.143)]	_____	_____	_____
5. In a classified balance sheet:			
a. Are deferred tax assets and deferred tax liabilities classified as current or noncurrent based on the classification of the related asset or liability for financial reporting? [SFAS 109, par. 41 (AC I27.140)]	_____	_____	_____
b. Are deferred tax assets or liabilities not related to an asset or liability for financial reporting (including those related to carry-forwards) classified according to the expected reversal date of the temporary difference? [SFAS 109, pars. 41 and .288p (AC I27.140)]	_____	_____	_____
c. Is the valuation allowance for a particular tax jurisdiction allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis? [SFAS 109, par. 41 (AC I27.140)]	_____	_____	_____
d. Are the following items offset and presented as a single amount for a particular taxpaying component and within a particular taxpaying jurisdiction:			
(1) All current deferred tax liabilities and assets?	_____	_____	_____
(2) All noncurrent deferred tax liabilities and assets? [SFAS 109, par. 42 (AC I27.141)]	_____	_____	_____
6. Do the financial statements include disclosure of the following:			
a. Disclosures relating to "Policyholders' Surplus" as defined in the Internal Revenue Code and as prescribed by APB 23?	_____	_____	_____
b. The portion of retained earnings in excess of statutory unassigned surplus for which neither current nor deferred federal income tax provisions have been made and the reasons therefor? [AAG, par. 10.17]	_____	_____	_____
<b>Q. Current Liabilities, Notes Payable, and Long-Term Debt</b>			
1. For classified balance sheets, do current liabilities include:			
a. Obligations for items that entered the operating cycle?	_____	_____	_____
b. Collections received in advance of the performance of services?	_____	_____	_____
c. Debts that arise from operations directly related to the operating cycle?	_____	_____	_____
d. Other liabilities whose regular and ordinary liquidation is likely to occur within a relatively short time period?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>e. Obligations that, by their terms, are due on demand or will be due within one year (or operating cycle, if longer) from the balance-sheet date, even though liquidation may not be expected within that period? [ARB 43, Ch. 3A, pars. 7 and 8 (AC B05.108 and .109); SFAS 78, par. 5 (AC B05.109a)]</p>	_____	_____	_____
<p>2. Do current liabilities exclude short-term obligations that the provider intends to refinance on a long-term basis, provided the provider has demonstrated the ability to consummate the long-term financing? [SFAS 6, pars. 8–14 (AC B05.113–.116); FASBI 8, pars. 2–4 (AC B05.117, .138 and .139)]</p>	_____	_____	_____
<p>3. Is there adequate disclosure of interest rates, maturities, and other terms and conditions provided in loan agreements and bond indentures (such as assets pledged as collateral, and covenants to reduce debt, and maintain working capital)? [FASCON 5, par. 11; SFAS 5, par. 18 (AC C59.120)]</p>	_____	_____	_____
<p>4. Are the following disclosed for each of the five years following the date of the latest balance sheet presented:</p> <p>a. The aggregate amount of payments for unconditional purchase obligations that meet the criteria of SFAS 47, <i>Disclosure of Long-Term Obligations</i>, and that are recognized on the purchaser's balance sheet?</p>	_____	_____	_____
<p>b. The combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings?</p>	_____	_____	_____
<p>c. The amount of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates, separately by issue or combined? [SFAS 47, par. 10 (AC C32.105)]</p>	_____	_____	_____
<p>5. Are conversion features appropriately accounted for and disclosed? [APB 14, par. 12 (AC D10.103); APB 15, par. 19 (AC E09.110)]</p>	_____	_____	_____
<p>6. If a note is noninterest bearing or has an inappropriate stated interest rate:</p> <p>a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?</p>	_____	_____	_____
<p>b. Does the disclosure include the effective interest rate and face amount of the note?</p>	_____	_____	_____
<p>c. Is amortization of the discount or premium reported as interest expense?</p>	_____	_____	_____
<p>d. Are issue costs reported in the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]</p>	_____	_____	_____
<p>7. If a short-term obligation is to be excluded from current liabilities in a classified balance sheet, do disclosures include:</p> <p>a. A general description of the financing agreement?</p>	_____	_____	_____
<p>b. The terms of any new obligation incurred or expected to be incurred, or equity securities issued or expected to be issued as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118)]</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. For a troubled debt restructuring occurring during the current period, do disclosures include:			
a. Description of the principal changes in terms, the major features of settlement, or both?	_____	_____	_____
b. Aggregate gain on restructuring of payables and the related income tax effect?	_____	_____	_____
c. Aggregate net gain or loss on transfers of assets recognized during the period?	_____	_____	_____
d. Per-share amount of the aggregate gain on restructuring of payables, net of related income tax effect? [SFAS 15, par. 25 (AC D22.121)]	_____	_____	_____
9. For periods after a troubled debt restructuring, do disclosures include:			
a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?	_____	_____	_____
b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)]	_____	_____	_____
10. If there is an extinguishment of debt, is the difference between reacquisition price and carrying amount identified as a separate or extraordinary item? [SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC D14.105)]	_____	_____	_____
11. If there is an early extinguishment of debt, is the difference between reacquisition price and carrying amount identified as income in the period of extinguishment as gain or loss? [APB 26, pars. 20 and 21 (AC D14.103 and .104)]	_____	_____	_____
12. Do disclosures for extinguishments of debt classified as extraordinary items include:			
a. Description of the extinguishment transactions, including the source of any funds used to extinguish debt if it is practicable to identify the sources?	_____	_____	_____
b. Income tax effect in the period of extinguishment?	_____	_____	_____
c. The per-share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC D14.107)]	_____	_____	_____
13. Is the following disclosed if debt was considered to be extinguished by in-substance defeasance under the provisions of SFAS 76, <i>Extinguishment of Debt</i> , prior to the effective date of SFAS 125:			
a. A general description of the transaction?	_____	_____	_____
b. The amount of debt that is considered extinguished at the end of the period so long as that debt remains outstanding? [SFAS 125, par. 17b (AC L35.109a)]	_____	_____	_____
14. If assets are set aside after January 1, 1997 solely for satisfying scheduled payments of a specific obligation, is disclosure made describing the nature of restrictions placed on those assets? [SFAS 125, par. 17c (AC L35.109b)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
15. Are long-term obligations that are or will be callable by the creditor, either because the debtor's violation of the debt agreement at the balance-sheet date makes the obligation callable, or because the violation (if not cured within a specified grace period) will make the obligation callable, classified as current unless one of the following conditions is met:			
a. The creditor waives or subsequently loses the right to demand repayment for more than one year (or operating cycle, if longer) from the balance-sheet date?	_____	_____	_____
b. The obligation contains a grace period within which the debtor may cure the violation and it is probable that the violation will be cured within that period, thus preventing the obligation from becoming callable? [SFAS 78, par. 5 (AC B05.109A)]	_____	_____	_____
16. If a covenant on a long-term loan agreement is not met, and thus, the lender has the right to call the debt, and the lender waives that right for a period of greater than one year but retains the future covenant requirements, is the debt classified as noncurrent unless both of the following are met:			
a. The covenant violation occurred at the balance-sheet date or would have occurred absent a loan modification?	_____	_____	_____
b. It is probable the company will not be able to comply with the covenant at a measurement date within the next 12 months? [EITF 86-30]	_____	_____	_____
17. If the company issued debt securities convertible into a fixed number of common shares, and upon conversion the company either is requested or has the option to satisfy all or part of the obligation in cash, is the conversion features and debt obligation presented on the balance sheet as one amount? [EITF 90-19]	_____	_____	_____
18. If the company enters into a binding contract with a holder of its debt obligation to redeem the debt security at a future date within one year for a specified amount greater than (or less than) the company's carrying amount of the debt, is the debt obligation classified as a current liability? [EITF 95-15]	_____	_____	_____
19. Are borrowings outstanding under a revolving credit agreement that includes both a subjective acceleration clause and a requirement to maintain a lock-box arrangement, whereby remittances from the borrower's customers reduce the debt outstanding, classified as short-term obligations? [EITF 95-22]	_____	_____	_____
<b>R. Other Liabilities</b>			
1. Are liabilities appropriately accrued and reported for employees' compensation for future absences? [SFAS 43, par. 6 (AC C44.104)]	_____	_____	_____
2. Are net credits arising from financing-type reinsurance agreements treated as a deferred credit or liability by the ceding company? [AAG, par. 8.110]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. For insurance-related assessments:			
a. If amounts relating to insurance-related assessments have been discounted pursuant to the provisions of SOP 97-3, <i>Accounting by Insurance and Other Enterprises for Insurance-Related Assessments</i> has the entity disclosed in the financial statements the undiscounted amounts of the liability and any related asset for premium tax offsets or policy surcharges as well as the discount rate used?	_____	_____	_____
b. If amounts have not been discounted, has the entity disclosed in the financial statements the amounts of the liability, any related asset for premium tax offsets or policy surcharges, the periods over which the assessments are expected to be paid, and the period over which the recorded premium tax offsets or policy surcharges are expected to be realized? [SOP 97-3, par. 27]	_____	_____	_____
4. Are amounts recoverable on unpaid losses deducted from the applicable claim reserve in the liability section of the statement of condition? [AAG, par. 5.06]	_____	_____	_____
<b>S. Shareholders' Equity</b>			
1. For each class of stock, do disclosures include the number of shares authorized, issued, and outstanding, and par or stated value per share? [Generally Accepted]	_____	_____	_____
2. Are classes of capital stock presented in order of priority in liquidation? [Generally Accepted]	_____	_____	_____
3. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding (e.g., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights, and significant terms of contracts to issue additional shares)? [SFAS 129, par. 4 (AC C24.102)]	_____	_____	_____
4. Do disclosures include the number of shares issued upon conversion, exercise, or satisfaction of required conditions during at least the most recent annual fiscal period and any subsequent interim period presented? [SFAS 129, par. 5 (AC C24.103)]	_____	_____	_____
5. For preferred stock that has a preference in involuntary liquidation considerably in excess of par or stated value of the shares, is the liquidation preference disclosed in the equity section of the balance sheet in the aggregate, either parenthetically or "in short," rather than on a per share basis or in the notes to the financial statements? [SFAS 129, par. 6 (AC C24.104)]	_____	_____	_____
6. Are the following disclosed on the face of the balance sheet or in the notes:			
a. The aggregate or per-share amounts at which preferred stock may be called or are subject to redemption through sinking-fund operations or otherwise?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The aggregate and per-share amounts of arrearages in cumulative preferred dividends? [SFAS 129, par. 7 (AC C24.105)]	_____	_____	_____
7. For redeemable stock, do disclosures include the amount of redemption requirements, separately by issue or combined, for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or redeemable dates in each of the five years following the date of the latest balance sheet? [SFAS 129, par. 8 (AC C24.106)]	_____	_____	_____
8. Are appropriations of retained earnings for loss contingencies clearly identified and included in shareholders' equity? [SFAS 5, par. 15 (AC R70.103)]	_____	_____	_____
9. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
10. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? <sup>4</sup> [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111); SFAS 111, par. 8(a)3]	_____	_____	_____
11. Are the carrying basis, cost and number of shares of any treasury stock held by the reporting entity disclosed? [Generally Accepted]	_____	_____	_____
12. If treasury stock is purchased for purposes other than retirement or if ultimate disposition has not yet been decided is its cost:			
a. Shown separately as a deduction from the total of capital stock, additional paid-in capital, and retained earnings?	_____	_____	_____
or			
b. Accorded the accounting treatment appropriate for retired stock?	_____	_____	_____
13. If state laws relating to acquisition of stock restrict the availability of retained earnings for payment of dividends or other significant effects, is appropriate disclosure made? [APB 6, par. 13 (AC C23.104)]	_____	_____	_____
14. If an additional liability required to be recognized pursuant to SFAS 87, paragraph 36 (AC P16.130), exceeds unrecognized prior-service cost, is the excess (which would represent a net loss not yet recognized as net periodic pension cost) reported in other comprehensive income, net of any tax benefits that result from considering such losses as temporary differences, for purposes of applying the provisions of SFAS 87, paragraph 37 (AC I27) and SFAS 109, paragraph 287? [SFAS 87, par. 37 (AC P16.131)]	_____	_____	_____
15. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed? [FTB 85-6, pars. 1-3 (AC C23.501-.503)]	_____	_____	_____

<sup>4</sup> As stated in paragraph 8(a)3 of SFAS 111, the dating would rarely, if ever, be of significance after a period of ten years.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
16. If statutory surplus is below the minimum required by law, is disclosure of the relevant facts made? [AAG, par. 10.15]	_____	_____	_____
17. Is the following information relating to stockholders' equity, statutory capital and surplus, and the effects of statutory accounting practices on the ability to pay dividends to stockholders disclosed:			
a. The amount of statutory capital and surplus?	_____	_____	_____
b. The amount of statutory capital and surplus necessary to satisfy regulatory requirements (based on current operations) if significant in relation to the statutory capital and surplus?	_____	_____	_____
c. The nature of statutory restrictions on the payment of dividends and the amount of retained earnings that is not available for the payment of dividends to stockholders? [SFAS 60, par. 60h (AC In6.166h); AAG, par. 10.10]	_____	_____	_____
18. If the company receives a note rather than cash as a contribution to its equity, is the note classified as a reduction of stockholders' equity unless (in the very limited circumstance) there is substantial evidence of ability and intent to pay within a reasonably short period of time? [EITF 85-1]	_____	_____	_____
19. Is the Mandatory Securities Valuation Reserve included in the equity section of the balance sheet as an appropriation of surplus, and not recorded as a valuation reserve? [AAG, par. 8.116]	_____	_____	_____

## Income Statement

### A. Premium Revenue

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Are premiums from universal life contracts no longer included in revenue but recorded in the balance sheet policyholder accounts?<br>[SFAS 97, par. 59 (AC In6.116A)] | _____ | _____ | _____ |
|--|-------|-------|-------|

### B. Investment Income

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Are amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield reported as part of interest income?<br>[SFAS 91, par. 22 (AC L20.121)]   | _____ | _____ | _____ |
| 2. Is investment income presented net of investment expenses?<br>[SFAS 97, par. 23 (AC In6.137B)]   | _____ | _____ | _____ |
| 3. Are realized gains and losses on all investments (except investments that are classified as trading securities and those that are accounted for as hedges as described in SFASs 52 and 80) reported in the statement of income as a component of other income, on a pretax basis?<br>[SFAS 97, par. 28 (AC In6.156)] | _____ | _____ | _____ |

### C. Other Income

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Is amortization of other fees, such as commitment fees that are being amortized on a straight-line basis over the commitment period or included in income when the commitment expires, reported as service fee income?<br>[SFAS 91, par. 22 (AC L20.121)] | _____ | _____ | _____ |
|--|-------|-------|-------|



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>D. Benefits and Expenses</b>			
1. Do disclosures for advertising costs include:			
a. The accounting policy selected from the two alternatives in paragraph 26 of SOP 93-7, <i>Reporting on Advertising Costs</i> , for reporting advertising, indicating whether such costs are expensed as incurred or the first time the advertising takes place?	_____	_____	_____
b. A description of the direct-response advertising reported as assets (if any), the accounting policy, and the amortization period?	_____	_____	_____
c. The total amount charged to advertising expense for each income statement presented, with separate disclosure of amounts, if any, representing a write-down to net realizable value and the reasons for such a write-down?	_____	_____	_____
d. The total amount of advertising reported as assets in each balance sheet? [SOP 93-7, par. 49]	_____	_____	_____
<b>E. Income Taxes</b>			
1. Are the types of significant temporary differences and carryforwards disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
2. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed in the financial statements or notes thereto:			
a. Current tax expense or benefit?	_____	_____	_____
b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?	_____	_____	_____
c. Investment tax credits?	_____	_____	_____
d. The benefits of operating loss carryforwards?	_____	_____	_____
e. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets, of an acquired company?	_____	_____	_____
f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise?	_____	_____	_____
g. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years? [SFAS 109, par. 45a-h (AC I27.144A-H)]	_____	_____	_____
h. The amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes?	_____	_____	_____
i. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital? [SFAS 109, pars. 45 and 48 (AC I27.144 and .147)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Is the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35–39 of SFAS 109 (ACI27.134–.138)) disclosed for each year for which those items are presented? [SFAS 109, par. 46 (AC I27.145)]	_____	_____	_____
4. If the company is a public enterprise, do the financial statements disclose a reconciliation using percentages or dollar amounts of (i) the reported amount of income tax expense attributable to continuing operations for the year to (ii) the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations?	_____	_____	_____
5. If the company is a public enterprise, is the estimated amount and the nature of each significant reconciling item disclosed?	_____	_____	_____
6. If the company is a non-public enterprise, is the nature of significant reconciling items disclosed (a numerical reconciliation may be omitted)? [SFAS 109, par. 47 (AC I27.146)]	_____	_____	_____
7. If the company is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:			
a. The aggregate amount of current and deferred tax expense for each statement of income presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented?	_____	_____	_____
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in Step a. above are presented? [SFAS 109, par. 49a and b (AC I27.148A and B)]	_____	_____	_____
8. Are the amounts of income taxes applicable to the results of discontinued operations disclosed on the statement of income or in related notes? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
9. Are the income taxes applicable to extraordinary events disclosed on the face of the statement of income or in related notes? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
<b>F. Discontinued Operations</b>			
1. Are operations of any segments that have been or will be discontinued reported separately from income from continuing operations and as a component of income before extraordinary items and the cumulative effect of accounting changes (if any)? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
2. Is any gain or loss from disposal of any discontinued segments reported in conjunction with results of discontinued operations as a component of income before extraordinary items? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Are amounts of income taxes applicable to the results of discontinued operations and the gains or losses from disposals disclosed on the face of the income statement or in the notes to the financial statements? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
4. Are revenues applicable to discontinued operations separately disclosed in the notes to the financial statements? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
5. For the period encompassing the measurement date, do notes to the financial statements disclose:			
a. Identity of the segment discontinued?	_____	_____	_____
b. Expected disposal date, if known?	_____	_____	_____
c. Expected manner of disposal?	_____	_____	_____
d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date?	_____	_____	_____
e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance-sheet date?	_____	_____	_____
f. A statement that the loss on disposal cannot be estimated within reasonable limits? [APB 30, par. 18 (AC I13.108 and .109)]	_____	_____	_____
6. For periods after the measurement date and including the period of disposal, do notes to the financial statements disclose the information required by Steps 3.a.-d. above and the information required by Step 3.e. above compared with prior estimates? [APB 30, par. 18 (AC I13.108 and .109)]	_____	_____	_____
7. For discontinued operations or sale of a portion of a line of business that is not a segment of a business, is the gain or loss from disposal reported as a separate component of income from continuing operations, and is it not reduced for income taxes (information similar to that in Steps 3a.-f. above should be disclosed, and disclosures for revenues and related costs and expenses included in the income statement that relate to the disposed portion of the line of business for the period prior to the measurement date is encouraged)? [AIN-APB 30, par. 1 (AC I22.502)]	_____	_____	_____
8. If any losses on disposals of business segments that were reported in prior periods are adjusted during the current period, are the adjustments separately disclosed as to year of origin, nature, and amount and classified separately on the current period as a gain or loss on disposal of a segment? [APB 30, par. 25 (AC I13.104)]	_____	_____	_____
9. If the company decides to dispose of a segment of a business accounted for in accordance with APB 30 and the measurement date occurs after the balance-sheet date but before the financial statements for the prior period have been issued and a loss is expected, are the segment's operating results presented as discontinued operations in the income statement of the not yet released financial statements (assuming that the loss does not result from a discrete and identifiable event that occurs unexpectedly after the balance-sheet date)? [EITF 95-18]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
10. If the company has accounted for the discontinuance of a segment in accordance with APB 30 and subsequently decides to retain the segment, is any impairment of the individual assets classified in continuing operations? [EITF 90-16]	_____	_____	_____
11. If the company plans to dispose of two segments of a business, and a net gain is expected (one has a net gain and the other a net loss), is that gain shown net? [EITF 85-36]	_____	_____	_____
<b>G. Extraordinary Items</b>			
1. Do extraordinary items meet both criteria of (1) unusual nature and (2) infrequency of occurrence? [APB 30, par. 20 (AC I17.107)]	_____	_____	_____
2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
3. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
4. Do disclosures include descriptions of an extraordinary event or transaction and the principal items entering into determination of extraordinary gain or loss? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
5. Is each adjustment in the current period of an element of an extraordinary item that was reported in a prior period separately disclosed as to year of origin, nature, and amount and classified separately in the current period as an extraordinary item? [SFAS 16, par. 16c (AC I17.119)]	_____	_____	_____
6. Are material events or transactions that are either unusual in nature or of infrequent occurrence, but not both (and therefore not meeting criteria for extraordinary items):			
a. Reported as a separate component of income from continuing operations?	_____	_____	_____
b. Accompanied by disclosure of the nature and financial effects of each event? [APB 30, par. 26 (AC I22.101)]	_____	_____	_____
7. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:			
a. Description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources?	_____	_____	_____
b. Income tax effect in the period of extinguishment?	_____	_____	_____
c. The per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC I17.104)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. If a debtor enters into a binding contract with a holder of its debt obligation to redeem the debt security at a future date within one year for a specified amount greater than (or less than) the debtor's carrying amount of the debt, is the loss that is recognized classified as an extraordinary item, net of income taxes? [EITF 95-15]	_____	_____	_____

#### H. Earnings Per Share

*Note:* SFAS 128, *Earnings per Share*, applies only to entities with publicly held common stock or potential common stock.

1. If the reporting entity has a simple capital structure (only common stock outstanding), are basic per-share amounts for income from continuing operations and for net income presented on the face of the income statement for all periods for which an income statement or summary of earnings is presented? [SFAS 128, pars. 36 and 38 (AC E11.131 and .133)]	_____	_____	_____
2. If the reporting entity has other than a simple capital structure, are basic and diluted per-share amounts for income from continuing operations and for net income presented on the face of the income statement with equal prominence for all periods for which an income statement or summary of earnings is presented? ( <i>Note:</i> If diluted EPS data are reported for at least one period, they should be reported for all periods presented, even if they are the same amounts as basic EPS.) [SFAS 128, pars. 36 and 38 (AC E11.131 and .133)]	_____	_____	_____
3. If discontinued operations, extraordinary items, or the cumulative effect of accounting changes are reported in the period, are the basic and diluted per share amounts for those line items presented on the face of the income statement or in the notes? [SFAS 128, par. 37 (AC E11.132)]	_____	_____	_____
4. If per share amounts not required to be presented by SFAS 128 are disclosed, are they disclosed only in the notes and do the disclosures indicate whether the per share amounts are pretax or net of tax? [SFAS 128, par. 37 (AC E11.132)]	_____	_____	_____
5. Are the following disclosed for each period for which an income statement is presented:			
a. A reconciliation of the numerators and denominators of the basic and diluted per share computations for income from continuing operations?	_____	_____	_____
b. The effect that has been given to preferred dividends in arriving at income available to common shareholders' in computing basic EPS?	_____	_____	_____
c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented? [SFAS 128, par. 40 (AC E11.135)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. For the latest period for which an income statement is presented, do disclosures include a description of any transaction that occurs after the end of the most recent period but before issuance of the financial statements that would have changed materially the number of common shares or potential common shares outstanding at the end of the period if the transaction had occurred before the end of the period? [SFAS 128, par. 41 (AC E11.136)]	_____	_____	_____
<b>I. Comprehensive Income</b>			
1. Are all components of comprehensive income reported in the financial statements in the period in which they are recognized? [SFAS 130, par. 14 (AC C49.108)]	_____	_____	_____
2. Is a total amount for comprehensive income displayed in the financial statement where the components of other comprehensive income are reported? [SFAS 130, par. 14 (AC C49.108)]	_____	_____	_____
3. Is an amount for net income displayed and included as a component of comprehensive income? [SFAS 130, pars. 15 and 22 (AC C49.109 and .116)]	_____	_____	_____
4. Are items included in other comprehensive income classified separately into foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities? [SFAS 130, par. 17 (AC C49.111)]	_____	_____	_____
5. Are reclassification adjustments made to avoid double counting in comprehensive income of items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or other periods presented on the face of the financial statement in which comprehensive income is reported or disclosed in the notes? [SFAS 130, par. 20 (AC C49.114)]	_____	_____	_____
6. Are comprehensive income and its components displayed in a financial statement that is displayed with the same prominence as the other financial statements? (Note: SFAS 130 encourages but does not require that the components of other comprehensive income and total comprehensive income be displayed below the total for net income in a statement that reports results of operations or in a separate statement of comprehensive income that begins with net income.) [SFAS 130, pars. 22 and 23 (AC C49.116 and .117)]	_____	_____	_____
7. Are the components of other comprehensive income displayed either net of related tax effects, or before related tax effects with one amount shown for the aggregate tax effect related to the total of other comprehensive income items? [SFAS 130, par. 24 (AC C49.118)]	_____	_____	_____
8. Is the amount of income tax expense or benefit allocated to each component of other comprehensive income (including reclassification adjustments) displayed on the face of the statement in which those components are displayed or disclosed in the notes to the financial statements? [SFAS 130, par. 25 (AC C49.119)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
9. Is the total of other comprehensive income for a period transferred to a component of equity that is displayed separately from retained earnings and additional paid-in-capital in the balance sheet with a descriptive title such as <i>accumulated other comprehensive income</i> ? [SFAS 130, par. 26 (AC C49.120)]	_____	_____	_____
10. Are accumulated balances for each classification within accumulated other comprehensive income disclosed on the face of the balance sheet, in the statement of changes in shareholders' equity, or in the notes? [SFAS 130, par. 26 (AC C49.120)]	_____	_____	_____
11. Has the enterprise reported a total for comprehensive income in condensed financial statements of interim periods? [SFAS 130, par. 27 (AC C49.121)]	_____	_____	_____

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**Note:** Steps 12 and 13 apply only if SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

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12. Has the entity displayed as a separate classification within other comprehensive income the net gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments that are reported in comprehensive income pursuant to paragraphs 30 and 41 of SFAS 133? [SFAS 133, par. 46 (AC D50)]	_____	_____	_____
13. As part of the disclosures of accumulated other comprehensive income, pursuant to paragraph 26 of SFAS 130, <i>Reporting Comprehensive Income</i> , has the entity separately disclosed the beginning and ending accumulated derivative gain or loss, the related net change associated with current period hedging transactions, and the net amount of any reclassification into earnings? [SFAS 133, par. 47 (AC D50)]	_____	_____	_____

#### **J. Other**

1. Are the following excluded from determination of net income or results of operations under all circumstances:			
a. Adjustments or charges or credits resulting from transactions in the company's own capital stock?	_____	_____	_____
b. Transfers to and from accounts properly designated as appropriated retained earnings?	_____	_____	_____
c. Adjustments made pursuant to a quasi reorganization? [APB 9, par. 28 (AC C08.101)]	_____	_____	_____
2. For nonpublic entities, if there is a restructuring charge, is it reflected using the most meaningful statement of income presentation within the framework of APB 30? [EITF 87-4]	_____	_____	_____

#### **Statement of Changes in Shareholders' Equity**

1. Are changes in the separate accounts of shareholders' equity disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
2. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. If prior-period adjustments have been recorded during the current year, are their resulting effects (both gross and net of applicable income taxes and including the amounts of income tax applicable to the prior period adjustments) appropriately disclosed:			
a. For single-period statements, does the disclosure indicate the effects of such restatement on the balance of retained earnings at the beginning of the period and on the net income of the immediately preceding period?	_____	_____	_____
b. If financial statements of more than one period are presented, does disclosure include the effects for each of the periods presented in the statements? [APB 9, par. 26 (AC A35.107)]	_____	_____	_____

### Practice Tip

Disclosure of restatements in annual reports issued subsequent to the first such post-revision disclosure would ordinarily not be required.

4. If the reporting entity is a publicly traded company and if interim financial data and disclosures are not separately reported for the fourth quarter, are accounting changes made during the fourth quarter, disposals of segments of a business, extraordinary, unusual, or infrequently occurring items recognized in the fourth quarter, and the aggregate effect of year end adjustments that are material to the results of that quarter disclosed in a note to the financial statements? [APB 28, par. 31 (AC I73.147); SFAS 3, par. 14]	_____	_____	_____
5. If the reporting entity is a publicly traded company, is disclosure about the effect of accounting changes on interim periods that are required by paragraphs 23–26 of APB 28 or by paragraphs 9–13 of SFAS 3 included in a note to the financial statements for the fiscal year in which the change is made? [SFAS 3, par. 14 (AC I73.147)]	_____	_____	_____
6. For a correction of an error, is the nature of the error disclosed in the period in which the error was discovered and corrected:			
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on income before extraordinary items, net income, and related per-share amounts, if applicable? [APB 20, par. 37 (AC A35.105)]	_____	_____	_____

### Statement of Cash Flows

1. Is a statement of cash flows presented as a basic financial statement (for each period for which a statement of income is presented) if financial statements present both financial position and results of operations? [SFAS 95, par. 3 (AC C25.101)]	_____	_____	_____
2. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows? [SFAS 95, pars. 27 and 28 (AC C25.125 and .126)]	_____	_____	_____
a. Are cash receipts and cash payments from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account classified as operating cash flows? [SFAS 102, par. 8, as amended by SFAS 115 (AC C25.122A)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Are cash receipts and cash payments resulting from purchases, acquisitions and sales of loans, if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market, classified as operating cash flows? [SFAS 102, par. 9 (AC C25.122B)]	_____	_____	_____
3. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:			
a. Cash receipts from sales of goods or services?	_____	_____	_____
b. Cash receipts from interest and dividends?	_____	_____	_____
c. All other cash receipts that do not stem from transactions defined as investing or financing activities?	_____	_____	_____
d. Cash payments to suppliers and employees, such as benefits paid to policyholders, surrender benefits, and dividends paid to policyholders?	_____	_____	_____
e. Cash payments to governments for taxes, duties, fines, and other fees or penalties?	_____	_____	_____
f. Cash payments to lenders and other creditors for interest?	_____	_____	_____
g. Payments to settle lawsuits?	_____	_____	_____
h. Contributions to charities?	_____	_____	_____
i. Cash flows from purchases, sales, and maturities of trading securities?	_____	_____	_____
j. All other cash payments that do not stem from transactions defined as investing or financing activities? [SFAS 95, pars. 22 and 23 (AC C25.120 and .121)]	_____	_____	_____
4. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
5. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
a. Receipts from collections or sales of loans?	_____	_____	_____
b. Purchases of and proceeds from sales of available-for-sale securities?	_____	_____	_____
c. Proceeds from maturities of available-for-sale and held-to-maturity securities?	_____	_____	_____
d. Purchases of held-to-maturity securities?	_____	_____	_____
e. Net purchases of property and equipment? [SFAS 95, pars. 16 and 17, as amended by SFAS 102, as amended by SFAS 115 (AC C25.114 and .115)]	_____	_____	_____
6. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
7. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
a. Proceeds from issuing equity instruments?	_____	_____	_____
b. Proceeds from issuing bonds, mortgages, and notes, and from other short- or long-term borrowing?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Repayment of amounts borrowed?	_____	_____	_____
d. Dividend payments to stockholders?	_____	_____	_____
e. Acquisition of treasury stock?	_____	_____	_____
f. Other principal payments to creditors who have extended long-term credit?	_____	_____	_____
g. Debt issue costs? [SFAS 95, pars. 19 and 20 (AC C25.117 and .118); EITF 95-13]	_____	_____	_____
8. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately on statement of cash flows? [SFAS 95, par. 25 (AC C25.123)]	_____	_____	_____
9. Is the change in cash and cash equivalents shown? [SFAS 95, pars. 7 and 26 (AC C25.105 and .124)]	_____	_____	_____
10. Is the policy for defining cash equivalent disclosed? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____

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**Practice Tip**

Any change in policy for determining which items are treated as cash equivalents is a change in accounting principle.

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11. Are noncash investing and financing activities, such as converting debt to equity, summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____
12. If the direct method is used, is a separate schedule provided to reconcile net income to net cash flow from operating activities? [SFAS 95, par. 29 (AC C25.128)]	_____	_____	_____
13. If the indirect method is used:			
a. Is the same amount for net cash flow from operating activities reported indirectly, by adjusting net income to reconcile it to net cash flow from operating activities?	_____	_____	_____
b. Is the reconciliation of net income to net cash flows from operating activities reported, either within the statement of cash flows or provided in a separate schedule (the reconciliation should separately report all major reconciling items pertaining to operating activities)? [SFAS 95, pars. 29 and 30 (AC C25.128)]	_____	_____	_____
14. If the indirect method is used, are the amounts of interest paid (net of amounts capitalized) and income taxes paid during the period(s) disclosed? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____
15. Are the following classes of operating cash receipts and payments for life insurance companies using the direct method, at a minimum, separately disclosed:			
a. Cash collected from customers, including lessees, licensees, and the like?	_____	_____	_____
b. Interest and dividends received?	_____	_____	_____
c. Other operating cash receipts, if any?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Cash paid to employees and other suppliers of goods or services, including suppliers of insurance, advertising, and the like?	_____	_____	_____
e. Interest paid?	_____	_____	_____
f. Income taxes paid?	_____	_____	_____
g. Other operating cash payments, if any? [SFAS 95, par. 27 (AC C25.125)]	_____	_____	_____

## General

### A. Titles and References

1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:
  - a. Balance sheet? \_\_\_\_\_
  - b. Statement of income (operations)? \_\_\_\_\_
  - c. Statement of retained earnings or changes in shareholders' equity? \_\_\_\_\_
  - d. Statement of cash flows? \_\_\_\_\_
  - e. Description of accounting policies? \_\_\_\_\_
  - f. Notes to the financial statements?  
[Generally Accepted] \_\_\_\_\_
2. Are the financial statements suitably titled?  
[Generally Accepted] \_\_\_\_\_
3. Does each statement include a general reference indicating that the notes are an integral part of the financial statement presentation?  
[Generally Accepted] \_\_\_\_\_

### B. Disclosure of Accounting Policies

1. Is a description of all significant accounting policies of the reporting company presented as an integral part of the financial statements?  
[APB 22, par. 8 (AC A10.102)] \_\_\_\_\_
2. Do the summary or notes identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, and results of operations?  
[APB 22, par. 12 (AC A10.105)] \_\_\_\_\_
3. Do those principles and methods identified in Step 2 include all instances in which there:
  - a. Is a selection from existing acceptable alternatives? \_\_\_\_\_
  - b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry? \_\_\_\_\_
  - c. Are unusual or innovative applications of GAAP?  
[APB 22, par. 12 (AC A10.105)] \_\_\_\_\_
4. Does disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided?  
[APB 22, par. 14 (AC A10.107); AAG, par. 10.01] \_\_\_\_\_
5. For GAAP reporting purposes, are the following regulatory accounting practices avoided (not all-inclusive): \_\_\_\_\_

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Nonrecognition of certain assets such as furniture and equipment?	_____	_____	_____
b. Nonrecognition of deferred taxes?	_____	_____	_____
c. Use of NAIC prescribed values for the amount of goodwill and other intangible assets related to the carrying value of investments in subsidiaries?	_____	_____	_____
d. Calculation of liability for reinsurance in unauthorized companies?	_____	_____	_____
e. Calculation of asset valuation reserve and interest maintenance reserve? [NAIC, Introduction]	_____	_____	_____
6. Are the principles relating to the recognition of premium revenue and related expenses disclosed? [AAG, par. 10.02]	_____	_____	_____
7. Do mutual life insurance companies disclose the principles and methods used to account for marketable securities and insurance activities? [FASBI 40, par. 5 (AC A10.102A)]	_____	_____	_____
8. When the permitted practices differ from the prescribed statutory accounting practices, is the following information about permitted statutory accounting practices that individually or in the aggregate affect statutory surplus or risk-based capital, including GAAP practices, disclosed:			
a. A description of the permitted statutory accounting practices?	_____	_____	_____
b. A statement that the permitted statutory accounting practice differs from prescribed statutory accounting practices?	_____	_____	_____
c. The monetary effect on statutory surplus? [SOP 94-5, par. 8]	_____	_____	_____
9. When prescribed statutory accounting practices do not address the accounting for the transaction, is the following information about permitted statutory accounting practices, excluding GAAP practices used, disclosed:			
a. A description of the transaction and of the permitted statutory accounting practice used?	_____	_____	_____
b. A statement that prescribed statutory accounting practices do not address the accounting for the transaction? [SOP 94-5, par. 8]	_____	_____	_____
10. If consolidated statements are presented; is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
11. If material, is the accounting policy used in recognizing amounts related to a modification of an operating lease (that does not change the lease classification) disclosed? [EITF 95-17]	_____	_____	_____
<b>C. Comparative Financial Statements</b>			
1. Are comparative statements considered? [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3, as amended by APB 20 (AC F43.103)]	_____	_____	_____
<b>D. Accounting Changes</b>			<input type="checkbox"/>
1. For all changes in accounting principles, are the following disclosures made in the year of change:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change?	_____	_____	_____
c. Effect on income before extraordinary items and on net income?	_____	_____	_____
d. Effect on related per-share amounts? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	_____	_____	_____
2. For all changes in accounting principles, except those concerning a change in entity and those recognized in paragraphs 27–30 of APB 20:			
a. Are financial statements for prior periods, included for comparative purposes, presented as previously reported?	_____	_____	_____
b. Is the effect of adopting the new accounting principle on income before extraordinary items and on net income and the related per-share amounts disclosed in the period of the change?	_____	_____	_____
c. Are income before extraordinary items and net income computed on a pro forma basis shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected? [APB 20, pars. 19–21 and 25 (AC A06.115–.117 and .121)]	_____	_____	_____
3. If appropriate, is the cumulative effect of a change in accounting principle shown separately between the captions “extraordinary items” and “net income”? [APB 20, pars. 19b, 20, and 21 (AC A06.114–.122 and E09.104)]	_____	_____	_____
4. Is the reason for not reporting the cumulative effect of the change and not disclosing the pro forma amounts for prior years disclosed if it is impossible to determine such effects? [APB 20, pars. 25 and 26 (AC A06.121 and .122)]	_____	_____	_____
5. For changes in accounting principle that are required to be accounted for by applying retroactively the new method in restatements of prior periods, is the effect of the change on income before extraordinary items, net income, and related per share amounts disclosed? [APB 20, par. 28 (AC A10.124)]	_____	_____	_____
6. For a change in accounting estimate affecting several future periods, are the following disclosures made in the year of change:			
a. Effect on income before extraordinary items and on net income?	_____	_____	_____
b. Effect on related per-share amounts? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
7. For correction of an error, is the nature of the error disclosed in the period in which the error was discovered and corrected:			
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on income before extraordinary items, net income, and related per-share amounts, if applicable? [APB 20, par. 37 (AC A35.105)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. If any accounting change has no material effect in the period of change but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of the change? [APB 20, par. 38 (AC A06.133)]	_____	_____	_____
9. For an accounting change that is in effect a change in reporting entity, are the financial statements of all prior periods restated in order to show financial information for the new reporting entity for all periods and are the following disclosures made for all periods presented:			
a. The nature of the change?	_____	_____	_____
b. The reason for the change?	_____	_____	_____
c. The effect of the change on income before extraordinary items, net income, and related per share amounts? [APB 20, pars. 34 and 35 (AC A35.112–.113)]	_____	_____	_____
10. If interim financial reports contain an adjustment related to prior interim periods of the current fiscal year, do disclosures include:			
a. The effect on income from continuing operations, net income, and related per share amounts for each prior interim period of the current fiscal year?	_____	_____	_____
b. Income from continuing operations, net income, and related per share amounts for each prior interim period restated? [SFAS 16, par. 15 (AC A35.111)]	_____	_____	_____

#### **E. Risks and Uncertainties**

1. Is a description of the major products and services the entity sells or provides and the principal markets, including the location of those markets, disclosed? [SOP 94-6, par. 10]	_____	_____	_____
2. If the company operates in more than one business, are the relative importance of its operations in each business and the basis for the determination (for example, assets, revenues, or earnings) disclosed? [SOP 94-6, par. 10]	_____	_____	_____
3. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included in the financial statements? [SOP 94-6, par. 11]	_____	_____	_____
4. Is the disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that both of the following criteria have been met:			
a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events?	_____	_____	_____
b. The effect of the change will be material? [SOP 94-6, par. 13]	_____	_____	_____
5. Does the disclosure in Step 4 above, indicate the nature of the uncertainty and include an indication that it is reasonably possible that a change in estimate will occur in the near term? <sup>5</sup> [SOP 94-6, par. 14]	_____	_____	_____

<sup>5</sup> If risk reduction techniques are used to mitigate losses or the uncertainty that may result from certain events, these disclosures are encouraged but not required.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. If the estimate in Step 4 above involves a loss contingency covered by SFAS 5, do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made? <sup>6</sup> [SOP 94-6, pars. 13 and 14]	_____	_____	_____
7. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made if, based on information known to management before the financial statements are issued, the criteria in paragraph 21 of SOP 94-6 are met? [SOP 94-6, pars. 21 and 22]	_____	_____	_____
8. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside of the company's home country that meet the criteria of paragraph 21 of SOP 94-6, are the following disclosed:			
a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year?	_____	_____	_____
b. The carrying amounts of net assets and the geographic areas in which they are located for operations located outside the company's home country? [SOP 94-6, par. 24]	_____	_____	_____
9. Have the optional disclosures in paragraphs 14 and 15 of SOP 94-6 been considered? [SOP 94-6, pars. 14 and 15]	_____	_____	_____
<b>F. Contingencies and Commitments</b>			
1. Is the nature and amount of significant accrued loss contingencies not related to life insurance disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)]	_____	_____	_____
2. For loss contingencies not accrued, do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109)]	_____	_____	_____
3. Is the nature and amount of guarantees disclosed (e.g., obligations under standby letters of credit, guarantees to repurchase loans that are sold)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 2 and 3 (AC C59.114)]	_____	_____	_____
4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
5. Is there adequate disclosure of commitments, such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, and for funding of loans and unused letters of credit? [SFAS 5, pars. 18 and 19 (AC C59.120); FASB 80 (AC F80)]	_____	_____	_____

<sup>6</sup> See footnote 5.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. If the company as guarantor “lends” its creditworthiness to another party (borrower) for a fee, is the guarantee disclosed in a note, if material? [EITF 85-20]	_____	_____	_____
7. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible? [SFAS 5, par. 10 (AC C59.109)]	_____	_____	_____
8. When, after considering management’s plans, the auditor concludes there is substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time, is adequate disclosure of the situation made in the financial statements? [SAS 59, par. 10 (AU 341.10)]	_____	_____	_____

#### G. Environmental Remediation Liabilities

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*Note:* SOP 96-1, *Environmental Remediation Liabilities*, does not provide guidance on recognizing liabilities of insurance companies for unpaid claims.

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1. Is there disclosure of the following accounting policies:			
a. Whether accruals for environmental remediation liabilities are measured on a discounted basis?	_____	_____	_____
b. The policy concerning the timing of recognition of recoveries? <i>(Encouraged, but not required.)</i> [SOP 96-1 (Ch. 7, pars. 11 and 12)]	_____	_____	_____
2. Do the financial statements disclose the event, situation, or set of circumstances that triggered recognition of loss contingencies that arose out of the reporting entity’s environmental remediation-related obligations? <i>(Encouraged, but not required.)</i> [SOP 96-1 (Ch. 7, par. 12)]	_____	_____	_____

#### ***Recognized Losses and Recoveries of Losses, and Reasonably Possible Loss Exposures***

3. With respect to recorded accruals for environmental remediation loss contingencies and assets for third-party recoveries related to environmental remediation obligations, are the following disclosed:			
a. The nature of the accruals, if such disclosure is necessary for the financial statements not to be misleading, and, in situations where disclosure of the nature of the accruals is necessary, the total amount accrued for the remediation obligation, if such disclosure is also necessary for the financial statements not to be misleading?	_____	_____	_____
b. If any portion of the accrued obligation is discounted, the undiscounted amount of the obligation and the discount rate used in the present-value determinations?	_____	_____	_____
c. If the criteria of SOP 94-6 (it is at least reasonably possible that an estimate of the effect on the financial statements of a matter that			



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>existed at the balance-sheet date will change in the near term and the effect of the change would be material to financial statements) are met with respect to the accrued obligation or to any recognized asset for third-party recoveries, an indication that it is at least reasonably possible that a change in the estimate of the obligation or of the asset will occur in the near term? [SOP 96-1 (Ch. 7, par. 20)]</p>	_____	_____	_____
4. With respect to reasonably possible loss contingencies, including reasonably possible loss exposures in excess of the amount accrued, are the following disclosed:			
a. The nature of the reasonably possible loss contingency, that is, a description of the reasonably possible remediation obligation, and an estimate of the possible loss exposure or the fact that such an estimate cannot be made?	_____	_____	_____
b. If the criteria of SOP 94-6 are met with respect to estimated loss (or gain) contingencies, an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	_____	_____	_____
c. The estimated time frame of disbursements for recorded amounts if expenditures are expected to continue over the long term? ( <i>Encouraged, but not required.</i> )	_____	_____	_____
d. The estimated time frame for realization of recognized probable recoveries, if realization is not expected in the near term? ( <i>Encouraged, but not required.</i> )	_____	_____	_____
e. If the criteria of SOP 94-6 are met with respect to the accrued obligation, to any recognized asset for third-party recoveries, or to reasonably possible loss exposures or disclosed gain contingencies, the factors that cause the estimate to be sensitive to change? ( <i>Encouraged, but not required.</i> )	_____	_____	_____
f. If an estimate of the probable or reasonably possible loss or range of loss cannot be made, the reasons why it cannot be made? ( <i>Encouraged, but not required.</i> )	_____	_____	_____
g. If information about the reasonably possible loss or the recognized and additional reasonably possible loss for an environmental remediation obligation related to an individual site is relevant to an understanding of the financial position, cash flows, or results of operations of the entity, the following with respect to the site: ( <i>Encouraged, but not required.</i> )			
(1) The total amount accrued for the site?	_____	_____	_____
(2) The nature of any reasonably possible loss contingency or additional loss, and an estimate of the possible loss or the fact that an estimate cannot be made and the reasons why it cannot be made?	_____	_____	_____
(3) Whether other potentially responsible parties are involved and the entity's estimated share of the obligation?	_____	_____	_____
(4) The status of regulatory proceedings?	_____	_____	_____
(5) The estimated time frame for resolution of the contingency? [SOP 96-1 (Ch. 7, pars. 21 and 22)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>Probable But Not Reasonably Estimable Losses</b>			
5. If the reporting entity's probable but not reasonably estimable environmental remediation obligations may be material, are the nature of the probable contingency (that is, a description of the remediation obligation) and the fact that a reasonable estimate cannot currently be made disclosed? [SOP 96-1 (Ch. 7, par. 25)]	_____	_____	_____
6. Is the estimated time frame for resolution of the uncertainty as to the amount of the loss disclosed? ( <i>Encouraged, but not required.</i> ) [SOP 96-1 (Ch. 7, par. 25)]	_____	_____	_____
<b>Environmental Remediation Costs Recognized Currently</b>			
7. Is the amount of environmental remediation costs recognized in the income statement disclosed in the following detail: ( <i>Encouraged, but not required.</i> )			
a. The amount recognized for environmental remediation loss contingencies in each period?	_____	_____	_____
b. The amount of any recovery from third parties that is credited to environmental remediation costs in each period?	_____	_____	_____
c. The income statement caption in which environmental remediation costs and credits are included? [SOP 96-1 (Ch. 7, par. 29)]	_____	_____	_____
<b>Other Matters</b>			
8. Do the financial statements include a <i>contingency conclusion</i> that addresses the estimated total unrecognized exposure to environmental remediation and other loss contingencies? ( <i>Optional.</i> ) [SOP 96-1 (Ch. 7, par. 30)]	_____	_____	_____
9. Is there a description of the general applicability and impact of environmental laws and regulations upon their business and how the existence of such laws and regulations may give rise to loss contingencies for future environmental remediation? ( <i>Optional.</i> ) [SOP 96-1 (Ch. 7, par. 31)]	_____	_____	_____
<b>H. Related-Party Transactions and Economic Dependency</b>			
1. For related-party transactions, do disclosures include:			
a. The nature of the relationship(s) involved (e.g., parent, subsidiary, and affiliate companies, officers, stockholders, etc.)?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which an income statement is presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements?	_____	_____	_____
c. The dollar amounts of transactions for each of the periods for which an income statement is presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, par. 2 (AC R36.102)]	_____	_____	_____
2. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting company and one or more other enterprises are under common ownership or management control, and the existence of the control could result in operating results or financial position of the reporting company being significantly different from those that would have resulted if the company were autonomous? [SFAS 57, par. 4 (AC R36.104)]	_____	_____	_____
<b>I. Employee Stock Ownership Plans</b>			<input type="checkbox"/>
1. If an employer sponsors an employee stock ownership plan (ESOP), do the employer's disclosures include:			
a. A description of the plan, the basis for determining contributions, including the employee groups covered, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
(1) For leveraged ESOPs and pension reversion ESOPs, does the description include the basis for releasing shares and how dividends on allocated and unallocated shares are used?	_____	_____	_____
b. A description of the accounting policies followed for ESOP transactions, including the method of measuring compensation, the classification of dividends on ESOP shares, and the treatment of ESOP shares for EPS computations?	_____	_____	_____
(1) If the entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, are the accounting policies for both blocks of shares disclosed?	_____	_____	_____
c. The amount of compensation cost recognized during the period?	_____	_____	_____
d. The number of allocated shares, committed-to-be-released shares, and suspense shares held by the ESOP at the balance-sheet date?	_____	_____	_____
(1) If the entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, is the above disclosure made separately for both blocks of shares?	_____	_____	_____
e. The fair value of unearned ESOP shares at the balance-sheet date for shares accounted for under SOP 93-6? <sup>7</sup>	_____	_____	_____
f. The existence and nature of any repurchase obligation, including disclosure of the fair value of the shares allocated as of the balance-sheet date, which are subject to a repurchase obligation? <sup>8</sup> [SOP 93-6, par. 53]	_____	_____	_____

<sup>7</sup> This disclosure need not be made for old ESOP shares for which the entity does not apply the guidance in SOP 93-6.

<sup>8</sup> Employers may wish to disclose additional information about the obligation, particularly information about the timing of payments. [SOP 93-6, par. 95]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are all the items listed in Step 8 above disclosed even if the employer with an ESOP does not adopt SOP 93-6 for shares held by the ESOP on December 31, 1992? [SOP 93-6, par. 55]	_____	_____	_____
3. For leveraged ESOPs and for nonleveraged ESOPs where the assets from the pension plan are used by the ESOP to purchase shares, when the employer reports the issuance of shares or the sale of treasury shares to the ESOP, is the charge to unearned ESOP shares presented as a separate item in the balance sheet as a contra-asset account? [SOP 93-6, pars. 13 and 46]	_____	_____	_____
4. If the employer sponsors an ESOP with an indirect loan, is the outside loan reported as a liability and the receivable from the ESOP not reported on the employer's balance sheet? [SOP 93-6, par. 26]	_____	_____	_____
5. If the employer sponsors an ESOP with an employer loan, is the ESOP's note payable and the employer's note receivable from the ESOP not reported in the employer's balance sheet? [SOP 93-6, par. 27]	_____	_____	_____

**J. Employers' Disclosures about Pensions and Other Postretirement Benefits**

***Reduced Disclosure Requirements for Nonpublic Entities***

1. For a nonpublic entity <sup>9</sup> has the election been made to disclose the following for its pension and other postretirement benefit plans in lieu of the disclosures required by paragraph 5 of SFAS 132:			
a. The benefit obligation, fair value of plan assets, and funded status of the plan? [SFAS 132, par. 8a (AC P16.150A, P40.169A)]	_____	_____	_____
b. Employer contributions, participant contributions, and benefits paid? [SFAS 132, par. 8b (AC P16.150A, P40.169A)]	_____	_____	_____
c. The amounts recognized in the statement of financial position, including the net pension and other postretirement benefit pre-paid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 8c (AC P16.150A, P40.169A)]	_____	_____	_____
d. The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 8d (AC P16.150A, P40.169A)]	_____	_____	_____
e. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets? [SFAS 132, par. 8e (AC P16.150A, P40.169A)]	_____	_____	_____

<sup>9</sup> A nonpublic entity is any entity other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market or (c) that is controlled by an entity covered by (a) or (b).

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved? [SFAS 132, par. 8f (AC P16.150A, P40.169A)]	_____	_____	_____
g. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period? [SFAS 132, par. 8g (AC P16.150A, P40.169A)]	_____	_____	_____
h. The nature and effect of significant nonroutine events, such as amendments, combinations, divestitures, curtailments, and settlements? [SFAS 132, par. 8h (AC P16.150A, P40.169A)]	_____	_____	_____

***Pensions and Other Postretirement Benefits***

1. If an employer sponsors one or more defined benefit pension plans or one or more defined benefit postretirement plans has the following information been provided:			
a. A reconciliation of beginning and ending balances of the benefit obligation <sup>10</sup> showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes <sup>11</sup> benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits? [SFAS 132, par. 5a (AC P16.150, P40.169)]	_____	_____	_____
b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes <sup>12</sup> contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements? [SFAS 132, par. 5b (AC P16.150, P40.169)]	_____	_____	_____
c. The funded status of the plans, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position, including:			
(1) The amount of any unamortized prior service cost?	_____	_____	_____
(2) The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	_____	_____	_____

<sup>10</sup> For defined benefit pension plans, the benefit obligation is the projected benefit obligation—the actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. For defined benefit postretirement plans, the benefit obligation is the accumulated postretirement benefit obligation—the actuarial present value of benefits attributed to employee service rendered to a particular date.

<sup>11</sup> The effects of foreign currency exchange rate changes that are to be disclosed are those applicable to plans of a foreign operation whose functional currency is not the reporting currency pursuant to SFAS 52, *Foreign Currency Translations*.

<sup>12</sup> Refer to footnote 10.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(3) The amount of any remaining unamortized, unrecognized net obligation or net asset existing at the initial date of application of SFAS 87 or SFAS 106?	_____	_____	_____
(4) The net pension or other postretirement benefit, prepaid assets, or accrued liabilities?	_____	_____	_____
(5) Any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 5c (AC P16.150, P40.169)]	_____	_____	_____
d. The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment? [SFAS 132, par. 5d (AC P16.150, P40.169)]	_____	_____	_____
e. The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 5e (AC P16.150, P40.169)]	_____	_____	_____
f. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets? [SFAS 132, par. 5f (AC P16.150, P40.169)]	_____	_____	_____
g. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved? [SFAS 132, par. 5g (AC P40.169)]	_____	_____	_____
h. The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (1) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (2) the accumulated postretirement benefit obligation for health care benefits? (For purposes of this disclosure, all other assumptions shall be held constant, and the effects shall be measured based on the substantive plan that is the basis for the accounting.) [SFAS 132, par. 5h (AC P40.169)]	_____	_____	_____
i. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period? [SFAS 132, par. 5i (AC P16.150, P40.169)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
j. If applicable, any alternative amortization method used to amortize prior service amounts or unrecognized net gains and losses pursuant to paragraphs 26 and 33 of SFAS 87 or paragraphs 53 and 60 of SFAS 106? [SFAS 132, par. 5j (AC P16.150, P40.169)]	_____	_____	_____
k. If applicable, any substantive commitment such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation? [SFAS 132, par. 5k (AC P16.150, P40.169)]	_____	_____	_____
l. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event? [SFAS 132, par. 5l (AC P16.150, P40.169)]	_____	_____	_____
m. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by SFAS 132? [SFAS 132, par. 5m (AC P16.150, P40.169)]	_____	_____	_____
2. Are amounts related to the employer's results of operations disclosed for each period for which an income statement is presented? [SFAS 132, par. 5 (AC P16.150, P40.169)]	_____	_____	_____
3. Are amounts related to the employer's statement of financial position disclosed for each balance sheet presented? [SFAS 132, par. 5 (AC P16.150, P40.169)]	_____	_____	_____
<b><i>Employers with Two or More Plans</i></b>			
1. The disclosures required by SFAS 132 may be aggregated for all of an employer's defined benefit pension plans and may be aggregated for all of an employer's defined benefit postretirement plans or may be disaggregated in groups if that is considered to provide the most useful information or is otherwise required by paragraph 7 of SFAS 132. Has the entity elected to aggregate these disclosures?	_____	_____	_____
2. Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligation in excess of assets. The same aggregation is permitted for postretirement plans. Has the entity elected to aggregate these disclosures?	_____	_____	_____
3. If those disclosures are combined, has the employer disclosed the aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets?	_____	_____	_____
4. Has the aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets also been disclosed?	_____	_____	_____
5. Do disclosure of amounts recognized in the statement of financial position present prepaid benefit costs and accrued benefit liabilities separately? [SFAS 132, par. 6 (AC P16.153, P40.172)]	_____	_____	_____
6. An employer may combine disclosures about pension or postretirement benefit plans outside the United States with those for U.S. plans unless the benefit obligations of the plans outside the United States are significant relative to the total benefit obligation and those plans use significantly different assumptions. Has the entity elected to combine these disclosures? [SFAS 132, par. 7 (AC P16.153A, P40.173)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>Defined Contribution Plans</b>			
1. Has the employer disclosed the amount of cost recognized for defined contribution pension or other postretirement benefit plans during the period separately from the amount of cost recognized for defined benefit plans?	_____	_____	_____
2. Do the disclosures include a description of the nature and effect of any significant changes during the period affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture? [SFAS 132, par. 9 (AC P16.162, P40.198)]	_____	_____	_____
<b>Multiemployer Plans</b>			
1. Has the employer disclosed the amount of contributions to multiemployer plans during the period?	_____	_____	_____
2. Has the employer chosen to disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pensions and other postretirement benefits? If so, do the disclosures include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture? [SFAS 132, par. 10 (AC P16.166, P40.178)]	_____	_____	_____
3. In some situations, withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of its unfunded benefit obligations. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, have the provisions of SFAS 5, <i>Accounting for Contingencies</i> , been applied? [SFAS 132, par. 11 (AC P16.166)]	_____	_____	_____
4. In some situations, withdrawal from a multiemployer plan may result in employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation. If it is either probable or reasonably possible that (a) an employer would withdraw from the plan under circumstances that would give rise to an obligation or (b) an employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage (a "maintenance of benefits" clause), has the employer applied the provisions of SFAS 5, <i>Accounting for Contingencies</i> ? [SFAS 132, par. 11 (AC P40.179)]	_____	_____	_____
<b>K. Consolidations</b>			<input type="checkbox"/>
1. Are the accounts of all majority-owned subsidiaries (except those for which control is likely to be temporary or does not rest with the majority owner) consolidated? [SFAS 94, par. 13 (AC C51.103)]	_____	_____	_____
2. If the financial reporting periods of any subsidiaries are different from that of the parent, are intervening events that materially affect financial position or results of operations disclosed? [ARB 51, par. 4 (AC C51.107)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Are the separate financial statements of all consolidated and unconsolidated subsidiaries presented in conformity with GAAP? [AAG, par. 8.107]	_____	_____	_____

#### **L. Financial Instruments**

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*Note:* If SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted, the following steps do not apply. See section L1 for the required disclosures. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

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1. For financial instruments with off-balance-sheet risk (except for those excluded by SFAS 105, paragraphs 14 and 15), are the following disclosed either in the body of the financial statements or in the notes by category of financial instrument:			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	_____	_____	_____
(2) The cash requirements of those instruments?	_____	_____	_____
(3) The related accounting policy pursuant to the requirements of APB 22, <i>Disclosure of Accounting Policies</i> (AC A10)? [SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112)]	_____	_____	_____
2. Do the disclosures in Steps 1.a. and 1.b. distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading? [SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112)]	_____	_____	_____
3. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed, either in the body of the financial statements or in the notes, by category of financial statement:			
a. The amount of accounting loss the company would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and if the collateral or other security, if any, for the amount due proved to be of no value to the company?	_____	_____	_____
b. The company's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the company's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18, as amended by SFAS 119, par. 14 (AC F25.113)]	_____	_____	_____
4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The amount of the accounting loss due to credit risk the company would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and if the collateral or other security, if any, for the amount due proved to be of no value to the company?	_____	_____	_____
c. The company's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the company's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
<hr/>			
<i>Note:</i> SFAS 126, <i>Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities</i> , amends SFAS 107, <i>Disclosures about Fair Value of Financial Instruments</i> , to make the disclosures prescribed in SFAS 107 optional for entities that meet all of the following criteria:			
a. The entity is nonpublic.			
b. The entity's total assets are less than \$100 million on the date of the financial statements.			
c. The entity has not held or issued any derivative financial instruments, as defined in SFAS 119, <i>Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments</i> , other than loan commitments, during the reporting period.			
<hr/>			
5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial condition? <sup>13</sup> [SFAS 107, par. 10, as amended by SFAS 119, par. 15 (AC F25.115C)]	_____	_____	_____
6. Do the disclosures in Step 5 distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading? [SFAS 107, par. 10, as amended by SFAS 119, par. 15 (AC F25.115C)]	_____	_____	_____
7. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed? [SFAS 107, par. 10 (AC F25.115C)]	_____	_____	_____
8. If it is not practicable to estimate the fair market value of financial instruments, are the following disclosed:			
a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	_____	_____	_____
b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25.115G)]	_____	_____	_____

<sup>13</sup> If disclosed in more than a single note, one of the notes should include a summary table containing the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by SFAS 107, as amended.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
9. If the offsetting of derivative financial instruments against nonderivative financial instruments is not permitted under FASB Interpretation 39, <i>Offsetting of Amounts Related to Certain Contracts</i> , does the company, in disclosing the fair value of a derivative financial instrument, not:			
a. Combine, aggregate, or net the fair value with the fair value of the fair value of a nonderivative financial instrument?	_____	_____	_____
b. Net the fair value with the fair value of other derivative financial instruments? [SFAS 107, par. 13, as amended by SFAS 119, par. 15 (AC F25.115)]	_____	_____	_____
10. For all fiscal years subsequent to the year of transition, are SFAS 107 disclosures included for each year for which a balance sheet is presented for comparative purposes? [SFAS 107, par. 17]	_____	_____	_____
11. For a written put option involving a reporting entity's own stock that gives the reporting entity a choice of settlement methods, is the classification within equity based on the settlement method that required the written put option to be initially classified as equity under the EITF 94-7 framework? [EITF 96-13]	_____	_____	_____
12. Are the classification guidelines under EITF 96-13 followed for written put options involving a reporting entity's own stock that give the reporting entity a choice of settlement methods? [EITF 96-13]	_____	_____	_____

## L1. Financial Instruments

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**Note:** The following disclosures apply only if SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

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### *Derivative Instruments and Hedging Activities*

1. If an entity holds or issues derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133) has disclosure been made of its objectives for holding or issuing those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives?	_____	_____	_____
2. Does the description distinguish between derivative instruments (and nonderivative instruments) designated as fair value hedging instruments, derivative instruments designated as cash flow hedging instruments, derivative instruments (and nonderivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives?	_____	_____	_____
3. Does the description also indicate the entity's risk management policy for each of those types of hedges, including a description of the items or transactions for which risks are hedged?	_____	_____	_____

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity?  | _____      | _____     | _____      |
| 5. Qualitative disclosures about an entity's objectives and strategies for using derivative instruments may be more meaningful if such objectives and strategies are described in the context of an entity's overall risk management profile. If appropriate, an entity is <b>encouraged, but not required</b> , to provide such additional qualitative disclosures. Have such disclosures been made?<br>[SFAS 133, par. 44 (AC D50)] | _____      | _____     | _____      |
| 6. Do the entity's disclosures for every reporting period for which a complete set of financial statements is presented also include the following:   |            |           |            |

***Fair value hedges***

- a. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses under SFAS 52, that have been designated and have qualified as fair value hedging instruments and for the related hedged items:

- |  |       |       |       |
|--|-------|-------|-------|
| (1) The net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance? | _____ | _____ | _____ |
| (2) The amount of net gain or loss recognized in earnings when a hedged firm commitment no longer qualifies as a fair value hedge?<br>[SFAS 133, par. 45a (AC D50)]  | _____ | _____ | _____ |

***Cash flow hedges***

- b. For derivative instruments that have been designated and have qualified as cash flow hedging instruments and for the related hedged transactions:

- |  |       |       |       |
|--|-------|-------|-------|
| (1) The net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance? | _____ | _____ | _____ |
| (2) A description of the transactions or other events that will result in the reclassification into earnings of gains and losses that are reported in accumulated other comprehensive income, and the estimated net amount of the existing gains or losses at the reporting date that is expected to be reclassified into earnings within the next 12 months?  | _____ | _____ | _____ |
| (3) The maximum length of time over which the entity is hedging its exposure to the variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing financial instruments?  | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(4) The amount of gains and losses reclassified into earnings as a result of the discontinuance of cash flow hedges because it is probable that the original forecasted transactions will not occur? [SFAS 133, par. 45b (AC D50)]	_____	_____	_____
<b><i>Hedges of the net investment in a foreign operation</i></b>			
c. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses under SFAS 52, that have been designated and have qualified as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, the net amount of gains or losses included in the cumulative translation adjustment during the reporting period? [SFAS 133, par. 45c (AC D50)]	_____	_____	_____
7. The quantitative disclosures about derivative instruments may be more useful, and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or nonfinancial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the entity presented a more complete picture of its activities by disclosing that information (encouraged, but not required)? [SFAS 133, par. 45 (AC D50)]	_____	_____	_____
<b><i>Disclosures about Fair Value of Financial Instruments</i></b>			
8. Has the entity disclosed, either in the body of the financial statements or in the accompanying notes <sup>14</sup> the fair value of financial instruments (except for those excluded in paragraphs 8 and 13 of SFAS 107) for which it is practicable to estimate fair value? [SFAS 107, par. 10 (AC F25)]	_____	_____	_____
9. Has the fair value disclosed in the notes been presented together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial position? [SFAS 107, par. 10 (AC F25)]	_____	_____	_____
10. In disclosing the fair value of a financial instrument, has the entity taken care not to net that fair value with the fair value of other financial instruments—even if those financial instruments are of the same class or are otherwise considered to be related, for example, by a risk management strategy—except to the extent that the offsetting of carrying amounts in the statement of financial position is permitted under the general principle in paragraphs 5 and 6 of FASB Interpretation No. 39, <i>Offsetting of Amounts Related to Certain Contracts</i> , or the exceptions for master netting arrangements in paragraph 10 of Interpretation 39 and for amounts related to certain repurchase and reverse repurchase agreements in paragraphs 3 and 4 of FASB Interpretation No. 41, <i>Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements</i> ? [SFAS 107, par. 14 (AC F25)]	_____	_____	_____
11. If it is not practicable to estimate the fair value of a financial instrument or a class of financial instruments, are the following disclosed:			

<sup>14</sup> If disclosed in more than a single note, one of the notes shall include a summary table. The summary table shall contain the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by this Statement as amended.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	_____	_____	_____
b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25)]	_____	_____	_____

**Note:** SFAS 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*, makes the disclosures about fair values of financial instruments prescribed in SFAS 107 optional for reporting entities that:

- a. Are nonpublic entities.
- b. Have total assets of less than \$100 million on the date of the financial statements.
- c. Have no instrument that, in whole or in part, is accounted for as a derivative instrument under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, during the reporting period.

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**Disclosure about Concentrations of Credit Risk of All Financial Instruments**

12. Except as indicated in paragraph 15b <sup>15</sup> of SFAS 107, has the entity disclosed all significant concentrations of credit risk arising from <i>all</i> financial instruments, whether from an individual counterparty or groups of counterparties? ( <i>Group concentrations</i> of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.) [SFAS 107, par. 15a (AC F25)]	_____	_____	_____
13. Has the entity made the following disclosures about each significant concentration:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?	_____	_____	_____
d. The entity's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements for which the entity is a party, and a brief			

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<sup>15</sup> SFAS 107 paragraph 15b provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:

- a. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of SFAS 87 (Financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, are subject to the reporting of paragraph 15a).
- b. The financial instruments described in paragraphs 8a, 8c, 8e, and 8f of SFAS 107, as amended by SFAS 112, *Employers' Accounting for Postemployment Benefits*, SFAS 123, *Accounting for Stock-Based Compensation*, and SFAS 125, except for reinsurance receivables and prepaid reinsurance premiums.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
description of the terms of those arrangements, including the extent to which they would reduce the entity's maximum amount of loss due to credit risk? [SFAS 107, par. 15a (AC F25)]	_____	_____	_____
14. Has the entity disclosed quantitative information <sup>16</sup> about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks ( <b>encouraged, but not required</b> )? [SFAS 107, par. 15c (AC F25)]	_____	_____	_____
15. For a written put option involving a reporting entity's own stock that gives the reporting entity a choice of settlement methods, is the classification within equity based on the settlement method that required the written put option to be initially classified as equity under the EITF 94-7 framework? [EITF 96-13]	_____	_____	_____
16. Are the classification guidelines under EITF 96-13 followed for written put options involving a reporting entity's own stock that give the reporting entity a choice of settlement methods? [EITF 96-13]	_____	_____	_____
<b>Note:</b> If SFAS 133, <i>Accounting for Derivative Instruments and Hedging Activities</i> , has been adopted, replace Steps 4, 5, 6 and 7 in Section C of the "Balance Sheet" section with the following questions:			
17. For securities classified as available-for-sale, has the reporting entity made the following disclosures by major-security type as of each date for which a statement of financial position is presented:			
a. Aggregate fair value?	_____	_____	_____
b. Total gains for securities with net gains in accumulated other comprehensive income?	_____	_____	_____
c. Total losses for securities with net losses in accumulated other comprehensive income? [SFAS 115, par. 19 (AC I80.118)]	_____	_____	_____
18. For securities classified as held-to-maturity, has the reporting entity made the following disclosures by major-security type as of each date for which a statement of financial position is presented:			
a. Aggregate fair value?	_____	_____	_____
b. Gross unrecognized holding gains or losses?	_____	_____	_____
c. Net carrying amount?	_____	_____	_____
d. Gross gains and losses in accumulated other comprehensive income for any derivatives that hedged the forecasted acquisition of the held-to-maturity securities? [SFAS 115, par. 19 (AC I80.118)]	_____	_____	_____

<sup>16</sup> Appropriate ways of reporting the quantitative information encouraged will differ for different entities and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (a) more details about current positions and perhaps activity during the period, (b) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (c) a gap analysis of interest rate repricing or maturity dates, (d) the duration of the financial instruments, or (e) the entity's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and an entity is encouraged to develop other ways of reporting quantitative information.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
19. For investments in debt securities classified as available-for-sale or held-to-maturity:			
a. Is disclosure made about their contractual maturities as of the date of the latest balance sheet presented (maturity information may be combined in appropriate groupings)?	_____	_____	_____
b. If securities not due at a single date (such as mortgage-backed securities) are allocated over several maturity groupings, is the basis for allocation disclosed? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
20. For each period for which an income statement is presented, are the following disclosed:			
a. The proceeds from sales of available-for-sale securities and gross realized gains and losses that have been included in earnings as a result of those sales?	_____	_____	_____
b. The basis on which the cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings was determined (i.e., specified identification, average cost, or other method used)?	_____	_____	_____
c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?	_____	_____	_____
d. The amount of the net unrealized holding gain or loss on available-for-sale securities for the period that has been included in accumulated other comprehensive income and the amount of gains and losses reclassified out of accumulated other comprehensive income into earnings for the period?	_____	_____	_____
e. The portion of trading gains and losses for the period that relates to trading securities still held at the reporting date? [SFAS 115, par. 21 (AC I80.120)]	_____	_____	_____
21. For any sales of or transfers from securities classified as held-to-maturity, are the following disclosed for each period for which an earnings statement is presented:			
a. Net carrying amount of the sold or transferred security?	_____	_____	_____
b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the held-to-maturity security?	_____	_____	_____
c. Related realized or unrealized gain or loss?	_____	_____	_____
d. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC I80.121)]	_____	_____	_____
<b>M. Foreign Currency</b>			<input type="checkbox"/>
1. Is the aggregate transaction gain or loss included in net income for the period disclosed? ( <i>Note:</i> for this disclosure, gains and losses on forward contracts determined in conformity with the requirements of paragraphs 18 and 19 of SFAS 52, shall be considered transaction gains or losses. <sup>17</sup> ) [SFAS 52, par. 30 (AC F60.140)]	_____	_____	_____

<sup>17</sup> If SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted, the phrase "forward contracts determined in conformity with the requirements of paragraphs 18 and 19 of SFAS 52 shall be considered transaction gains or losses" is replaced by "derivative instruments shall comply with paragraph 45 of SFAS 133." SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Is an analysis of changes during the period in the accumulated amount of translation adjustments reported in equity, included, and does it disclose:			
a. Beginning and ending amounts of cumulative translation adjustments?	_____	_____	_____
b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and inter-company balances?	_____	_____	_____
c. The amount of income taxes for the period allocated to translation adjustments?	_____	_____	_____
d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____
3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant? [SFAS 52, par. 32 (AC F60.142)]	_____	_____	_____
4. Are any foreign earnings reported in addition to amounts received in the U.S. disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F65.102)]	_____	_____	_____
5. If the company entered into a foreign currency swap contract to replace foreign currency debt with reporting currency debt, is the contract accounted for separately and not netted against the foreign currency debt (they are two separate legal transactions and do not have the right of setoff except as expanded below)? [EITF 86-25; FASBI 39, par. 5 (AC B10.101)]	_____	_____	_____

#### N. Futures Contracts




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*Note:* If SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted, Step 1 does not apply. See section L1 for the required disclosures. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

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1. If a futures contract is accounted for as a hedge, does the disclosure include:			
a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?	_____	_____	_____
b. The method of accounting for the futures contract, including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts? [SFAS 80, par. 12 (AC F80.112)]	_____	_____	_____

#### O. Derivatives




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*Note:* If SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* has been adopted, the following steps do not apply. See section L1 for the required disclosures. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. For options held and other derivative financial instruments not within the scope of SFAS 105 that do not have off-balance-sheet risk, are the following disclosures made by category of financial instrument:			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including a discussion of:			
(1) Credit and market risk?	_____	_____	_____
(2) Cash requirements?	_____	_____	_____
(3) Related accounting policy as required by APB 22?	_____	_____	_____
c. Do disclosures in Steps a. and b. above distinguish between financial instruments held or issued for:			
(1) Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?	_____	_____	_____
(2) Purposes other than trading? [SFAS 119, pars. 8 and 9 (AC F25.115L and .115M)]	_____	_____	_____
2. If the company holds or issues derivative financial instruments for trading purposes, are the following disclosed:			
a. The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities?	_____	_____	_____
b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the income statement?	_____	_____	_____
(1) If the disaggregation is other than by class, did the company also disclose for each category the classes of derivative financial instruments, other financial instruments, and nonfinancial assets and liabilities from which the net trading gains and losses arose?	_____	_____	_____
c. The average fair value for assets and liabilities from the trading of other types of financial instruments or nonfinancial assets? (This disclosure is encouraged but not required.) [SFAS 119, par. 10 (AC F25.115N)]	_____	_____	_____
3. Does a company that holds or issues derivative financial instruments for purposes other than trading disclose:			
a. A description of:			
(1) The objectives for holding or issuing?	_____	_____	_____
(2) The context needed to understand those objectives?	_____	_____	_____
(3) The strategies for achieving those objectives?	_____	_____	_____
(4) The classes of derivative financial instruments used?	_____	_____	_____
b. A description of how each class of derivative financial instrument is reported in the financial statements, including:			
(1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?	_____	_____	_____
(2) When recognized, where the instruments and related gains and losses are reported?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:			
(1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?	_____	_____	_____
(2) A description of the classes of derivative financial instruments used to hedge?	_____	_____	_____
(3) The amount of explicitly deferred hedging gains and losses?	_____	_____	_____
(4) A description of the transaction or events that result in recognition in earnings of the deferred gains or losses? [SFAS 119, par. 11 (AC F25.115O)]	_____	_____	_____
4. Are the following encouraged, but not required, quantitative disclosures made:			
a. Interest rate?	_____	_____	_____
b. Foreign exchange?	_____	_____	_____
c. Commodity price?	_____	_____	_____
d. Other market risks consistent with management's strategies?	_____	_____	_____
e. Information of the risk of other financial instruments or nonfinancial assets and liabilities related by risk management strategy pertaining to the objectives for holding or issuing derivative financial instruments? <sup>18</sup> [SFAS 119, pars. 12 and 13 (AC F25.115P and .115Q)]	_____	_____	_____

**P. Transfers and Servicing of Financial Assets**

1. Is the policy for requiring collateral or other security disclosed if the entity has entered into repurchase agreements or securities lending transactions? [SFAS 125, par. 17a]	_____	_____	_____
2. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements? [SFAS 125, par. 17d]	_____	_____	_____
3. For all servicing assets and servicing liabilities are the following disclosures made:			
a. The amounts of servicing assets or liabilities recognized and amortized during the period?	_____	_____	_____

<sup>18</sup> Suggested methods of disclosure of the above include:

- a. Additional details about current positions and period activity.
- b. Hypothetical effects on equity or on annual income due to several possible changes in market prices.
- c. Gap analysis of interest rate repricing or maturity dates.
- d. Duration of financial instruments.
- e. The entity's value at risk from derivative financial instruments and other positions at period end and the average value at risk during the year.
- f. Any other informative disclosures.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The fair value of recognized servicing assets and liabilities for which it is practicable to estimate that value and the method and significant assumptions used to estimate the fair value?	_____	_____	_____
c. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 37 of SFAS 125?	_____	_____	_____
d. The activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented? [SFAS 125, par. 17e]	_____	_____	_____
<b>Q. Nonmonetary Transactions</b>			<input type="checkbox"/>
1. Do disclosures for nonmonetary transactions during the period include:			
a. Nature of the transactions?	_____	_____	_____
b. Basis of accounting for the assets transferred?	_____	_____	_____
c. Gains or losses recognized on the transfers? [APB 29, par. 28, fn. 7 (AC C11.102 and N35.120); FASBI 30 (AC N35.114–.119)]	_____	_____	_____
<b>R. Subsequent Events</b>			<input type="checkbox"/>
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03, .04, .07, and 561.01–.10 (AU 560.03, .04, .07 and 561.01–.10)]	_____	_____	_____
2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05–.07, .09, and 561.01–.09 (AU 560.05–.07, .09, and 561.01–.09)]	_____	_____	_____
<hr/> <b>Note:</b> Consider the appropriateness of dual-dating the auditor's report if a subsequent event is disclosed in the financial statements (AU 530.05). <hr/>			
<b>S. Costs to Exit an Activity</b>			<input type="checkbox"/>
1. If a material liability is recognized for certain employee termination benefits in accordance with Section A of EITF Issue 94-3, <i>Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)</i> , are the following disclosures made in all periods until the plan of termination is completed:			
a. The amount of termination benefits accrued and charged to expense and the classification of those costs in the income statement?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The number of employees to be terminated?	_____	_____	_____
c. A description of the employee group(s) to be terminated?	_____	_____	_____
d. The amount of actual termination benefits paid and charged against the liability and the number of employees actually terminated as a result of the plan to terminate employees?	_____	_____	_____
e. The amount of any adjustment(s) to the liability? [EITF 94-3, Section A]	_____	_____	_____
2. If management commits to an exit plan that meets the criteria in Section B of EITF Issue 94-3, are the following reporting requirements followed:			
a. Reporting the statement of income effect of recognizing a liability at the commitment date in income from continuing operations and not on the face of the statement of income net of taxes?	_____	_____	_____
b. No disclosure made on the face of the statement of income for earnings per share effect?	_____	_____	_____
c. Revenue and related costs and expenses of activities that will not be continued should not be combined and reported as a separate component of income? [EITF 94-3, Section B]	_____	_____	_____
3. If the activities that will not be continued are significant to the company's revenue or operating results, or if the exit costs recognized at the commitment date are material, are the following disclosures made in all periods until the exit plan is completed:			
a. A description of the major actions comprising the exit plan, activities that will not be continued, including the method of disposition, and the anticipated date of completion?	_____	_____	_____
b. A description of the type and amount of exit costs recognized as liabilities and the classification of those costs in the income statement?	_____	_____	_____
c. A description of the type and amount of exit costs paid and charged against the liability?	_____	_____	_____
d. The amount of any adjustment(s) to the liability?	_____	_____	_____
e. For all periods presented, the revenue and net operating income or losses from activities that will not be continued if those activities have separately identifiable operations? [EITF 94-3, Section B]	_____	_____	_____
<b>T. Business Combinations</b>			<input type="checkbox"/>
<i>Pooling of Interests Method</i>			
1. If a business combination occurred during the period and met the specified conditions for a pooling-of-interests, are the following disclosed:			
a. The fact that a combination accounted for by the pooling-of-interests method has occurred during the period disclosed? [APB 16, pars. 63 and 64b (AC B50.122 and .123b)]	_____	_____	_____
b. The name and a brief description of the enterprises combined? [APB 16, par. 64a (AC B50.123a)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. A description and the number of shares of stock issued in the combination? [APB 16, par. 64c (AC B50.123c)]	_____	_____	_____
d. Details (including revenue, extraordinary items, net income, other changes in shareholders' equity, and amount of and manner of accounting for intercompany transactions) of the results of operations of the previously separate enterprises for the period before the combination is consummated that are included in the current combined net income? [APB 16, par. 64d (AC B50.123d)]	_____	_____	_____
e. Descriptions of the nature of adjustments of net assets of the combining enterprises to adopt the same accounting practices and the effects of the changes on net income previously reported separately and now presented in comparative financial statements? [APB 16, par. 64e (AC B50.123e)]	_____	_____	_____
f. Details (including at least revenue, expenses, extraordinary items, net income, and other changes in shareholders' equity for the period excluded from the reported results of operations) of increases or decreases in retained earnings from changing the fiscal year of a combining enterprise? [APB 16, par. 64f (AC B50.123f)]	_____	_____	_____
g. Reconciliations of amounts of revenue and earnings previously reporting by the enterprise that issued the stock to effect the combination with the combined amounts currently presented in financial statements and summaries? (Or if a new enterprise was formed to effect the combination, the earnings of the separate enterprises that comprise combined earnings for prior periods may be disclosed.) [APB 16, par. 64g (AC B50.123g)]	_____	_____	_____
2. If a business combination that was either incomplete as of the date of the financial statements or initiated after that date is consummated before the financial statements are issued, are details (including revenue, net income, earnings per share, and the effects of anticipated changes in accounting methods as if the combination had been consummated at the date of the financial statements) of the effects of the combination disclosed? [APB 16, par. 65 (AC B50.124)]	_____	_____	_____

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### Practice Tip

Information relating to several relatively minor acquisitions may be combined for disclosure.

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### *Purchase Method*

- |  |       |       |       |
|--|-------|-------|-------|
| 3. If a business combination occurred during the period and is to be accounted for under the purchase method, are the following disclosed: |       |       |       |
| a. The name and a brief description of the acquired enterprise?<br>[APB 16, par. 95a (AC B50.164a)]  | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The method of accounting for the combination—that is, the purchase method? [APB 16, par. 95b (AC B50.164b)]	_____	_____	_____
c. The period for which results of operations of the acquired enterprise are included in the income statement of the acquiring enterprise? [APB 16, par. 95c (AC B50.164c)]	_____	_____	_____
d. The cost of the acquired enterprise and, if applicable, the number of shares of stock issued or issuable and the amount assigned to the shares? [APB 16, par. 95d (AC B50.164d)]	_____	_____	_____
e. A description of the plan for amortization of acquired goodwill, the amortization method, and period? [APB 16, par. 95e (AC B50.164e)]	_____	_____	_____
f. Contingent payments, options, or commitments specified in the acquisition agreement and their proposed accounting treatment (including consideration that is issued or issuable at the end of a contingency period or that is held in escrow)? [APB 16, pars. 78 and 95f (AC B50.136 and .164f)]	_____	_____	_____
g. For public companies only, the following as supplemental information (including at least revenue, income before extraordinary items, net income, and earnings per share) on a pro forma basis:			
(1) Results of operations for the current period as though the enterprises had combined at the beginning of the period, unless the acquisition was at or near the beginning of the period? [APB 16, par. 96a (AC B50.165a); SFAS 79, par. 6 (AC B50.165)]	_____	_____	_____
(2) Results of operations for the immediately preceding period as though the enterprises had combined at the beginning of that period if comparative statements are presented? [APB 16, par. 96b (AC B50.165b); SFAS 79, par. 6 (AC B50.165)]	_____	_____	_____
4. If the reporting entity elects not to include a preacquisition contingency (other than the effects of tax loss carryforwards) in the purchase price allocation or, for those that arise after the end of the allocation period, are not included in net income of the period in which the adjustment is determined as described in SFAS 38, is there disclosure of the amount and nature of adjustments, including the effect of the adjustments on current or expected future cash flows? [SFAS 38, par. 10 (AC B50.166)]	_____	_____	_____
5. If, as part of a business combination accounted for as a purchase, a material liability is recognized by the combined company for costs incurred to (a) exit an activity, (b) involuntarily terminate employees of an acquired company, or (c) relocate employees of an acquired company:			
a. Are the following disclosures made for the period in which a purchase business combination occurs:			
(1) If the plans to exit an activity or involuntarily terminate (relocate) employees of the acquired company are not final as			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
of the balance sheet date, a description of any unresolved issues, the types of additional liabilities that may result in an adjustment to the purchase price allocation, and how any adjustment will be reported?	_____	_____	_____
(2) A description of the type and amount of liabilities assumed in the purchase price allocation for costs to exit an activity or involuntary terminate (relocate) employees?	_____	_____	_____
(3) A description of the major actions comprising the plan to exit an activity or involuntarily terminate (relocate) employees of an acquired company?	_____	_____	_____
(4) A description of activities of the acquired company that will not be continued, including the method of disposition, and the anticipated date of completion and description of employee group(s) to be terminated (relocated)?	_____	_____	_____
b. Are the following disclosures made for all periods presented subsequent to the acquisition date in which a purchase business combination occurred, until a plan to exit an activity or involuntarily terminate or relocate employees of an acquired company is fully executed:			
(1) A description of the type and amount of exit costs, involuntary employee termination costs, and relocation costs paid and charged against the liability?	_____	_____	_____
(2) The amount of any adjustment to the liability account and whether the corresponding entry was an adjustment of the costs of the acquired company or included in the determination of net income for the period? [EITF 95-3]	_____	_____	_____
6. Is any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill and other noncurrent intangible assets of an acquired entity or directly to contributed capital (paragraphs 30 and 36 of SFAS 109, AC section I27.129 and .135) disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____

#### U. Segment Information

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**Note:** Public business enterprises are required to provide the disclosures described in SFAS 131 and nonpublic business enterprises are encouraged to do so.

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1. Are the factors used to identify the reporting entity's reportable segments, including the basis of organization (for example, whether management has chosen to organize the reporting entity around differences in products and services, geographic areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated) disclosed? [SFAS 131, par. 26 (AC F30.125)]	_____	_____	_____
2. Are the types of products and services from which each reportable segment derives its revenues disclosed? [SFAS 131, par. 26 (AC F30.125)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Has a measure of profit or loss and total assets been reported for each reportable segment? [SFAS 131, par. 27 (AC F30.126)]	_____	_____	_____
4. If the following specified amounts (a) are included in the measure of segment profit or loss reviewed by the chief operating decision maker or (b) are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss, are they disclosed for each reportable segment:			
a. Revenues from external customers?	_____	_____	_____
b. Revenues from transactions with other operating segments of the reporting entity?	_____	_____	_____
c. Interest revenue?	_____	_____	_____
d. Interest expense?	_____	_____	_____
e. Depreciation, depletion, and amortization expense?	_____	_____	_____
f. Unusual items as described in paragraph 26 of APB 30?	_____	_____	_____
g. Equity in the net income of investees accounted for by the equity method?	_____	_____	_____
h. Income tax expense or benefit?	_____	_____	_____
i. Extraordinary items?	_____	_____	_____
j. Significant noncash items other than depreciation, depletion, and amortization expense? [SFAS 131, par. 27 (AC F30.126)]	_____	_____	_____
5. If the following specified amounts are (a) included in the determination of segment assets reviewed by the chief operating decision maker or (b) are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment assets, are they disclosed for each reportable segment:			
a. The amount of investment in equity method investees?	_____	_____	_____
b. Total expenditures for additions to long-lived assets other than financial instruments and deferred tax assets? [SFAS 131, par. 28 (AC F30.127)]	_____	_____	_____
6. Is an explanation of the measurements of segment profit or loss and segment assets that discloses the following for each reportable segment provided:			
a. The basis of accounting for any transactions between reportable segments?	_____	_____	_____
b. The nature of any differences between the reporting entity's consolidated income before taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principle?	_____	_____	_____
c. The nature of any differences between the measurements of the reportable segments' assets and the reporting entity's consolidated assets?	_____	_____	_____
d. The nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss?	_____	_____	_____
e. The nature and effect of any asymmetrical allocations to segments? [SFAS 131, par. 31 (AC F30.130)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
7. Are reconciliations of the totals of the reportable segments' revenues, measures of profit or loss, assets, and every other significant item of information disclosed to corresponding consolidated amounts presented with all significant reconciling items separately identified and described? [SFAS 131, par. 32 (AC F30.131)]	_____	_____	_____
8. If the reporting entity changes the structure of its internal organization in a manner that changes the composition of its reportable segments, is the corresponding information for prior periods restated and is the fact that the corresponding items of segment information for earlier periods have been restated disclosed? [SFAS 131, par. 34 (AC F30.133)]	_____	_____	_____
9. If the reporting entity changes the structure of its internal organization in a manner that changes the composition of its reportable segments and the corresponding information for prior periods is not restated, does disclosure in the year in which the change occurs include segment information for the current period under both the old basis and the new basis? [SFAS 131, par. 35 (AC F30.134)]	_____	_____	_____
10. For all reporting entities subject to SFAS 131, including those that have a single reportable segment, are the following enterprise-wide items disclosed:			
a. Revenues from external customers for each product and service or each group of similar products and services unless it is impracticable to do so? [SFAS 131, par. 37 (AC F30.136)]	_____	_____	_____
b. The following geographic information unless it is impracticable to do so:			
(1) Revenues from external customers (a) attributed to the reporting entity's country of domicile and (b) attributed to all foreign countries in total from which the reporting entity derives revenue?	_____	_____	_____
(2) Revenues from external customers attributed to an individual foreign country, if material?	_____	_____	_____
(3) The basis for attributing revenues from external customers to individual countries?	_____	_____	_____
(4) Long-lived assets other than financial instruments and deferred tax assets (a) located in the reporting entity's country of domicile and (b) located in all foreign countries in total in which the reporting entity holds assets?	_____	_____	_____
(5) Long-lived assets as described above in an individual foreign country, if material? [SFAS 131, par. 38 (AC F30.137)]	_____	_____	_____
c. Information about the extent of the reporting entity's reliance on its major customers, including the following:			
(1) If revenues from transactions with any single customer amount to 10 percent or more of the reporting entity's revenues, that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenue? [SFAS 131, par. 39 (AC F30.138)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. If the information described in Step 10.a. and b. above has not been disclosed because it is impracticable, is that fact disclosed? [SFAS 131, pars. 37 and 38 (AC F30.136 and .137)]	_____	_____	_____
<b>V. Postemployment Benefits</b>			
1. If an obligation for postemployment benefits (for example, salary continuation, supplemental unemployment benefits, severance benefits, disability related benefits, job training and counseling, and continuation of health and insurance coverage) has not been accrued because the amount cannot be reasonably estimated, is that fact disclosed in the financial statements? [SFAS 112, par. 7 (AC P32.105)]	_____	_____	_____
<b>W. Stock Compensation Plans</b>			
1. If the reporting entity continues to apply APB 25 in accounting for its stock-based compensation arrangements, is the pro forma net income and, if earnings per share are presented, pro forma earnings per share determined as if the fair-value based method (described in SFAS 123) had been applied in measuring compensation cost, disclosed for each year for which an income statement is presented? [SFAS 123, par. 45 (AC C36.144)]	_____	_____	_____
2. Is a description of the plan(s), including the general terms of awards under the plan(s) disclosed? [SFAS 123, par. 46 (AC C36.145)]	_____	_____	_____
3. Are the following disclosed for each year for which an income statement is presented:			
a. The number and weighted-average exercise prices of options for each of the following groups of options:			
(1) Those outstanding at the beginning of the year?	_____	_____	_____
(2) Those outstanding at the end of the year?	_____	_____	_____
(3) Those exercisable at the end of the year?	_____	_____	_____
(4) Those granted during the year?	_____	_____	_____
(5) Those exercised during the year?	_____	_____	_____
(6) Those forfeited during the year?	_____	_____	_____
(7) Those expired during the year?	_____	_____	_____
b. The weighted-average grant-date fair value of options granted during the year? (Note: That if the exercise prices of some options differ from the market price of the stock on the grant date, weighted-average fair values of options shall be disclosed separately for options whose exercise price (1) equals, (2) exceeds, or (3) is less than the market price of the stock on the grant date.)	_____	_____	_____
c. The number and weighted-average grant date-fair value of equity instruments other than options granted during the year?	_____	_____	_____
d. A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information: (1) risk-free interest rate, (2) expected life, (3) expected volatility, and (4) expected dividends?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. Total compensation cost recognized in income for stock-based employee compensation awards?	_____	_____	_____
f. The terms of significant modifications of outstanding awards? [SFAS 123, par. 47a–f (AC C36.146)]	_____	_____	_____
4. If the reporting entity grants options under multiple stock-based employee compensation plans, are the items in Step 3 above disclosed separately for different types of awards to the extent that the differences in the characteristics of the awards make separate disclosure important to an understanding of the reporting entity's use of stock-based compensation? [SFAS 123, par. 47 (AC C36.146)]	_____	_____	_____
5. For options outstanding at the date of the latest balance sheet presented, are the following disclosed:			
a. The range of exercise prices?	_____	_____	_____
b. The weighted-average exercise price?	_____	_____	_____
c. The weighted-average remaining contractual life? [SFAS 123, par. 48 (AC C36.147)]	_____	_____	_____
6. If the range of exercise prices is wide (the highest exercise price exceeds approximately 150 percent of the lowest exercise price), are the exercise prices segregated into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received as a result of option exercises and are the following disclosed for each range:			
a. The number, weighted-average exercise price, and weighted-average remaining contractual life of options outstanding?	_____	_____	_____
b. The number and weighted-average exercise price of options currently exercisable? [SFAS 123, par. 48 (AC C36.147)]	_____	_____	_____



# FSP Section 20,400

## *Auditors' Reports Checklist*

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

### .02 Explanation of References:

SAS =	AICPA Statement on Auditing Standards
SOP =	AICPA Statement of Position
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
SSARS =	AICPA Statement on Standards for Accounting and Review Services
AR =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 2)

### .03 Checklist Questionnaire:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is every financial statement audited specifically identified in the introductory paragraph of the auditor's report? [SAS 58, par. 6 (AU 508.06)]	_____	_____	_____
2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statements presented? [Generally Accepted]	_____	_____	_____
3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented? [Generally Accepted]	_____	_____	_____
4. Is the report appropriately addressed? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
5. Does the auditor's report include appropriate:			
a. A title that includes the word "independent"? [SAS 58, par. 8a (AU 508.08a)]	_____	_____	_____
b. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08b)]	_____	_____	_____
c. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit? [SAS 58, par. 8c (AU 508.08c)]	_____	_____	_____
d. A statement that the audit was conducted in accordance with generally accepted auditing standards? [SAS 58, par. 8d (AU 508.08d)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. A statement that generally accepted auditing standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [SAS 58, par. 8e (AU 508.08e)]	_____	_____	_____
f. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [SAS 58, par. 8f (AU 508.08f)]	_____	_____	_____
g. A statement that the auditor believes that his audit provides a reasonable basis for his opinion? [SAS 58, par. 8g (AU 508.08g)]	_____	_____	_____
h. An opinion as to whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with generally accepted accounting principles? [SAS 58, par. 8h (AU 508.08h)]	_____	_____	_____
i. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08i)]	_____	_____	_____
j. The date of the audit report? [SAS 58, par. 8j (AU 508.08j)]	_____	_____	_____

#### Practice Tip

Paragraph 8 of SAS 58 illustrates the form of the auditor's standard report on financial statements covering a single year and on comparative financial statements.

6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the auditor's report, has the need for dual-dating of the report been considered? [SAS 1, sec. 530, pars. 3–5 (AU 530.03–.05)]	_____	_____	_____
7. If the accountant is not independent, is a compilation report indicating the lack of independence issued (non-public companies only)? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
8. If the opinion is based in part on the report of another auditor:			
a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?	_____	_____	_____
b. Does the opinion paragraph include a reference to the report of the other auditor? [SAS 58, pars. 11a, 12, and 13 (AU 508.11a, .12, and .13)]	_____	_____	_____
9. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? [SAS 58, pars. 11b and 15 (AU 508.11b and .15)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
10. If there is substantial doubt about the entity's ability to continue as a going concern:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?	_____	_____	_____
b. Is that conclusion expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern? [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]	_____	_____	_____

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**Practice Tip**

In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. See SAS 77 for an example.

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11. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?	_____	_____	_____
b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11d and .16)]	_____	_____	_____
12. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:			
a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?	_____	_____	_____
b. Does the explanatory paragraph disclose:			
(1) The date of the auditor's previous report?	_____	_____	_____
(2) The type of opinion previously expressed?	_____	_____	_____
(3) The circumstances or events that caused the auditor to express a different opinion?	_____	_____	_____
(4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]	_____	_____	_____
13. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:			
a. Does the introductory paragraph of the report indicate:			
(1) That the financial statements of the prior period were audited by another auditor?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) The date of the predecessor auditor's report?	_____	_____	_____
(3) The type of report issued by the predecessor auditor?	_____	_____	_____
(4) If the report was other than a standard report, the substantive reasons therefor including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?	_____	_____	_____
b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, as amended by SAS 79, pars. 11e and 74 (AU 508.11e and .74)]	_____	_____	_____
14. If selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed, does the report include an additional paragraph stating that fact? [SAS 58, par. 11f (AU 508.11f); SAS 71, par. 41 (AU 722.41)]	_____	_____	_____
15. If supplementary information required by the FASB has been omitted, the presentation of such information departs materially from FASB guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to FASB guidelines, does the report include an additional paragraph stating that fact? [SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8 (AU 558.08)]	_____	_____	_____
16. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [SAS 58, par. 11h (AU 508.11h); SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
17. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"? [SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
18. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion? [SAS 58, as amended by SAS 79, par. 22 (AU 508.22)]	_____	_____	_____
19. If a qualified opinion is to be expressed because of a scope limitation:			
a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> ?	_____	_____	_____
c. Is the situation described and referred to in both the scope and opinion paragraphs?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself? [SAS 58, as amended by SAS 79, pars. 22–27 (AU 508.22–.27)]	_____	_____	_____

### Practice Tip

Scope limitations include situations in which the auditor is unable to obtain sufficient evidential matter to support management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, as amended by SAS 79, par. 31]

**Note:** Consult the Topical Index to the AICPA *Professional Standards* under "Scope of Audit—Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

20. If an opinion is disclaimed because of a scope limitation:			
a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?	_____	_____	_____
b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?	_____	_____	_____
c. Does the report avoid identifying procedures that were performed?	_____	_____	_____
d. Is the scope paragraph omitted?	_____	_____	_____
e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report? [SAS 58, as amended by SAS 79, par. 63 (AU 508.63)]	_____	_____	_____
21. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion? [SAS 58, as amended by SAS 79, par. 35 (AU 508.35)]	_____	_____	_____
22. If a qualified opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> and a reference to the explanatory paragraph?	_____	_____	_____
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [SAS 58, as amended by SAS 79, pars. 37 and 38 (AU 508.37 and .38)]	_____	_____	_____
23. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	_____	_____	_____
c. State that the financial statements do not present fairly the financial position, or results of operations or cash flows in conformity with GAAP? [SAS 58, as amended by SAS 79, pars. 58 and 59 (AU 508.58 and .59)]	_____	_____	_____
<hr/> <b>Note:</b> Consult the Topical Index to the AICPA <i>Professional Standards</i> under "Departures From Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion. <hr/>			
24. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, is it accompanied by a report that:			
a. States that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
b. Specifically identifies the accompanying information?	_____	_____	_____
c. States that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	_____	_____	_____
d. Includes either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion (depending on whether the information was subjected to the auditing procedures applied in the audit of the basic financial statements)? [SAS 29, par. 6 (AU 551.06)]	_____	_____	_____
<hr/> <b>Statutory Basis Financial Statements</b> <hr/>			
25. Does the report on statutory financial statements as to fair presentation in conformity with the statutory basis of accounting not include a disclaimer of opinion as to fair presentation in conformity with GAAP? [SOP 95-5, par. 10]	_____	_____	_____
26. Is an adverse opinion expressed with respect to conformity with GAAP, unless the auditor determines the differences between GAAP and the statutory basis of accounting are not material and pervasive? [SOP 95-5, par. 12]	_____	_____	_____
27. Do the notes to the statutory financial statements discuss the statutory basis of accounting and describe how that basis differs from GAAP? [SOP 95-5, par. 13]	_____	_____	_____

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#### Practice Tip

SAS 87, *Restricting the Use of an Auditor's Report*, provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report. SAS 87 is effective for reports issued after December 31, 1998.

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# **FSP Section 20,500**

## ***Supplemental Information for Life Insurance Companies That Are Securities and Exchange Commission Registrants***

.01 Footnote 3 to SAS 69 states, in part, that for Securities and Exchange Commission (SEC) registrants, rules and releases of the SEC have an authority similar to other officially established accounting principles.

Regulation S-X is the primary source of requirements for financial statements and related footnotes required to be included in documents filed with the SEC. In addition to Regulation S-X, preparers and auditors of financial statements should be familiar with the SEC's Financial Reporting Releases (FRR) and Staff Accounting Bulletins (SAB). FRRs communicate the SEC's position on accounting and auditing principles and practices. SABs represent interpretations and practices followed by the Division of Corporation Finance and the Office of the Chief Accountant of the SEC. Insurance companies are subject to the requirements of Articles 1-4, 7, 10, and 12 of Regulation S-X.

When determining compliance with SEC requirements, preparers and auditors should refer to the appropriate SEC pronouncements to ensure compliance with SEC disclosure rules. In particular, the following documents should be consulted:

- Regulation S-X, Article 1, Application of Regulation S-X
- Regulation S-X, Article 2, Qualifications and Reports of Accountants
- Regulation S-X, Article 3, General Instructions as to Financial Statements
- Regulation S-X, Article 4, Rules of General Application
- Regulation S-X, Article 7, Insurance Companies
- Regulation S-X, Article 10, Interim Financial Statements
- Regulation S-X, Article 12, Form and Content of Schedules
- Staff Accounting Bulletins—SABs reflect the SEC staff's views regarding accounting-related disclosure practices. They represent interpretations and policies followed by the Division of Corporation Finance and the Office of the Chief Accountant in administering the disclosure requirements of the federal securities laws.
- Financial Reporting Releases (FRR)—FRRs adopt, change, or interpret requirements relating to accounting, auditing, and disclosure issues.



# FSP Section 20,600

## *Illustrative Financial Statements*

.01 This section contains illustrative financial statements prepared in conformity with generally accepted accounting principles (GAAP). The financial statements are for illustrative purposes only, are not intended to be comprehensive and are not intended to establish preference among alternative principles acceptable under GAAP. Decisions about the application of the GAAP discussed in the accounting and financial reporting sections of the AICPA Industry Audit Guide *Audits of Stock Life Insurance Companies*, should not be made by reference to the illustrative financial statements but by a careful reading to the specified authoritative literature. The illustrative financial statements reflect many of the minimum disclosure requirements for a life and health insurance entity but do not include all of the amounts or transactions discussed in other chapters of the Guide or that might be found in practice. For example, the illustrative notes indicate the subject matter generally required to be disclosed, but they should be expanded, reduced, or otherwise modified to suit individual circumstances based on a careful reading of the specified authoritative literature.

.02 The illustrative financial statements do not include other transactions not unique to life and health insurance entities, such as disclosures about segments, employee benefit plans, certain risks and uncertainties, or postemployment benefits other than pensions. Preparers and auditors should consult authoritative pronouncements for guidance on presenting such other information.

.03 The illustrative financial statements do not reflect rules and releases of the Securities and Exchange Commission (SEC) that, for SEC registrants, have an authority similar to other officially established accounting principles. SEC Regulation S-X, Article 7, *Insurance Companies*, should be referred to.

.04 The illustrative financial statements are in conformity with accounting standards issued up to and including SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Preparers and auditors of financial statements should refer to subsequent FASB Statements and other GAAP for additional requirements.

.05 Life and health insurance entities generally present unclassified balance sheets.

## ABC LIFE INSURANCE COMPANY

## Balance Sheet

December 31, 19X2 and 19X1

(Amounts in Thousands)

	<u>19X2</u>	<u>19X1</u>
<b>Assets</b>		
Investments:		
Debt and equity securities:		
Fixed maturities, held to maturity, at amortized cost (estimated fair value: \$47,830 in 19X2 and \$45,255 in 19X1)	\$ 44,864	\$ 46,310
Fixed maturities, available for sale, at estimated fair value (amortized cost: \$247,525 in 19X2 and \$219,565 in 19X1)	255,893	214,563
Trading account securities, at estimated fair value (cost: \$4,220 in 19X2 and \$4,419 in 19X1)	3,950	4,190
Mortgage loans	79,258	106,692
Real estate	6,410	6,147
Policy loans	43,549	51,013
Short-term investments	7,515	6,321
Total investments	<u>441,439</u>	<u>435,236</u>
Cash and cash equivalents	5,285	3,343
Accrued investment income	6,660	8,026
Premiums due and other receivables, net of allowance of \$4,500 and \$2,100 for doubtful accounts	1,647	1,092
Reinsurance receivable on paid and unpaid losses	596	407
Reinsurance receivable related to contractholder liabilities	5,714	3,048
Deferred policy acquisition costs	38,936	36,429
Property and equipment, net of accumulated depreciation	501	420
Other assets	152	158
Separate account assets	732	525
Total assets	<u>\$501,662</u>	<u>\$488,684</u>
<b>Liabilities</b>		
Future policy benefits	\$345,887	\$341,207
Guaranteed interest contracts	21,342	23,555
Policyholders' funds on deposit	49,408	46,202
Unpaid claims	5,418	4,737
Policyholders' dividends	2,335	3,450
Amounts held in escrow and accrued expenses	4,977	4,562
Deferred federal income taxes	1,412	1,027
Other liabilities	253	4,465
Separate account liabilities	732	525
Total liabilities	<u>431,764</u>	<u>429,730</u>
Commitments and contingencies (Note 12)		
<b>Shareholders' Equity</b>		
Capital stock: authorized—5,000,000 shares of \$2 par value; 3,341,624 shares issued and outstanding	6,683	6,683
Retained earnings	57,776	55,522
Net unrealized appreciation (depreciation) of available for sale securities, net of taxes	5,439	(3,251)
Total shareholders' equity	<u>69,898</u>	<u>58,954</u>
Total liabilities and shareholders' equity	<u>\$501,662</u>	<u>\$488,684</u>

See accompanying notes to financial statements.

## ABC LIFE INSURANCE COMPANY

## Statement of Income

Years Ended December 31, 19X2 and 19X1

(Amounts in Thousands, Except per Share Data)

	<u>19X2</u>	<u>19X1</u>
<b>Premiums and Other Revenues</b>		
Premiums:		
Life and annuity premiums	\$24,833	\$24,783
Accident and health premiums	10,141	9,153
Other premiums	20	43
Contractholder fees	1,961	1,844
Net investment income	32,998	35,141
Net realized gains (losses) on investments	<u>4,222</u>	<u>(2,670)</u>
Total premiums and other revenues	<u>74,175</u>	<u>68,294</u>
<b>Benefits and Other Expenses</b>		
Policyholder benefits	39,158	30,815
Interest credited to policyholder accounts	4,363	4,156
General expenses	4,288	4,984
Amortization of deferred acquisition costs	1,276	1,305
Underwriting, acquisition, and insurance expenses	18,029	17,266
Policyholders' dividends	<u>4,665</u>	<u>6,898</u>
Total benefits and expenses	<u>71,779</u>	<u>65,424</u>
Income before income taxes	2,396	2,870
Income taxes:		
Current	1,547	601
(Prepaid) Deferred	<u>(1,405)</u>	<u>540</u>
Total income taxes	<u>142</u>	<u>1,141</u>
Net income	<u>2,254</u>	<u>1,729</u>
Net income per common share	<u>.67</u>	<u>.52</u>
Dividends per common share	<u>—</u>	<u>.98</u>

See accompanying notes to financial statements.



**ABC LIFE INSURANCE COMPANY**  
**Statement of Shareholders' Equity**  
**Years Ended December 31, 19X2 and 19X1**  
**(Amounts in Thousands)**

	<i>Capital Stock</i>	<i>Retained Earnings</i>	<i>Net Unrealized Appreciation (Depreciation), Net of Taxes</i>	<i>Total Shareholders' Equity</i>
Balance at January 1, 19X1	\$6,683	\$57,068	\$(1,521)	\$62,230
Net income for 19X1	—	1,729	—	1,729
Shareholders' dividends	—	(3,275)	—	(3,275)
Net change in unrealized gains and losses of available for sale securities	—	—	(1,730)	(1,730)
Balance at December 31, 19X1	6,683	55,522	(3,251)	58,954
Net income for 19X2	—	2,254	—	2,254
Net change in unrealized gains and losses of available for sale securities	—	—	8,690	8,690
Balance at December 31, 19X2	<u>\$6,683</u>	<u>\$57,776</u>	<u>\$ 5,439</u>	<u>\$69,898</u>

See accompanying notes to financial statements.

**ABC LIFE INSURANCE COMPANY**  
**Statements of Cash Flows**  
**Years Ended December 31, 19X2 and 19X1**  
**(Amounts in Thousands)**

	<u>19X2</u>	<u>19X1</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,254	\$ 1,729
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest credited to interest sensitive contracts	4,564	6,289
Interest credited to universal life policies	3,363	4,156
Accrual of discount on investments, net	(976)	(1,328)
Net realized (gains) losses on investments	(4,222)	2,670
Depreciation	194	181
Amortization of deferred policy acquisition costs	2,847	3,353
Deferred federal income taxes	(2,538)	540
Change in operating assets and liabilities:		
Accrued investment income	1,366	880
Deferred policy acquisition costs	(7,354)	(5,340)
Policy liabilities	1,407	(16,234)
Other items, net	(644)	3,269
Net cash provided by operating activities	<u>261</u>	<u>165</u>
<b>Cash flows from investing activities:</b>		
Cost of investments purchased:		
Fixed maturities and equity securities	(228,053)	(122,495)
Mortgage loans and real estate	(921)	—
Proceeds from investments sold, redeemed, or matured:		
Fixed maturities and equity securities	206,051	95,227
Mortgage loans and real estate	27,970	18,621
Policy loans, net	2,320	6,468
Short-term investments, net	409	15,446
Net cash provided by investing activities	<u>7,776</u>	<u>13,217</u>
<b>Cash flows from financing activities:</b>		
Dividends to shareholders	—	(3,275)
Premiums and deposits to interest-sensitive contracts	677	1,082
Receipts from universal life policies credited to contractholder account balances	7,241	7,283
Return of contractholder account balances on universal life policies	(4,165)	(3,718)
Withdrawals from interest-sensitive contracts	(9,848)	(13,046)
Cash used in financing activities	<u>(6,095)</u>	<u>(11,674)</u>
Net increase in cash and cash equivalents	1,942	1,708
Cash and cash equivalents, beginning of year	3,343	1,635
Cash and cash equivalents, end of year	<u>\$ 5,285</u>	<u>\$ 3,343</u>
<b>Supplemental Cash Flow Information:</b>		
Income taxes paid	<u>\$ 1,205</u>	<u>\$ 785</u>

See accompanying notes to financial statements.

## ABC LIFE INSURANCE COMPANY

### Notes to Financial Statements

#### Note 1: Organization and Significant Accounting Policies

*Organization.* ABC Life Insurance Company (ABC or the Company) is a stock life insurance company incorporated in the state of ABC State that offers individual life, disability income, long-term care, annuity, and investment products. ABC does business in the continental United States, with a concentration in New York, New Jersey, and Connecticut.

*Basis of Presentation.* The significant accounting policies followed by ABC that materially affect financial reporting are summarized below. The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) which differ from statutory accounting practices used for regulatory authorities. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Investments.* Fixed maturity securities available for sale consist of bonds, notes, redeemable and nonredeemable preferred stock not classified as either trading or held to maturity and are reported at estimated fair value, adjusted for other than temporary declines in fair value, with unrealized gains and losses shown net of applicable taxes, deferred policy acquisition cost offsets for universal life type contracts and amounts attributable to certain participating contracts are included in shareholders' equity as a separate component of shareholder's equity. Fixed maturity securities held to maturity consist of bonds, notes, redeemable, and nonredeemable preferred stock which the insurance company has the intent and ability to hold to maturity, and are reported at amortized cost, and are adjusted for amortization of premiums or discounts and other than temporary declines in fair value. Trading account securities consist of bonds, notes, redeemable and nonredeemable preferred stock, and common stock held principally for resale in the near term, and are recorded at their estimated fair values. Realized and unrealized gains and losses on trading account securities are included in net realized gains (losses) on investments. Mortgage loans on real estate are carried at unpaid balances, and adjusted for amortization of premium or discount, less allowance for losses. Real estate held for sale is carried at the lower of depreciated cost or fair value less estimated selling costs and losses which are considered other than temporary. Real estate, including real estate acquired in satisfaction of debt, is carried at depreciated cost. Impaired real estate is written down to fair value with the impairment loss being included in net realized gains (losses) on investments. Upon foreclosure (including in-substance foreclosure), the carrying value of the property is recorded at the lower of cost or fair value (less selling costs if to be sold), which becomes its new cost basis. The estimated fair value for real estate is determined based upon independent appraisals and other available information about the property, which may take into consideration a number of factors, including: (a) discounted cash flows; (b) sales of comparable properties; (c) geographic location of property and related market conditions; and (d) disposition costs. Foreclosed properties are actively managed by the company in order to maximize their value. Subsequent to foreclosure, the carrying value of the property is periodically evaluated and a valuation allowance is established, if necessary, to reflect any additional amounts considered unrecoverable upon sale. At the time of the sale, the difference between the sales price and the carrying value is recorded as a realized gain or loss. Policy loans are carried at unpaid balances. Short-term investments are stated at amortized cost which approximates market value. Provisions for impairments are included in net realized gains and losses. Realized gains and losses are determined by specific identification.

*Cash and Cash Equivalents.* Cash equivalents are carried at cost which approximates market value. Cash equivalents are highly liquid financial instruments with an original maturity of three months or less.

*Deferred Policy Acquisition Costs.* Commissions and other costs of acquiring traditional life insurance, universal life insurance and investment products, and accident and health insurance, that vary with and are primarily related to the production of new and renewal business have been deferred. Traditional life insurance and accident and health insurance acquisition costs are being amortized over the premium-paying period of the related policies using assumptions consistent with those used in computing future policy benefit liabilities. For universal life-type contracts and investment contracts that include significant surrender charges or that yield significant revenues from sources other than the investment of contractholders' funds, the deferred contract acquisition cost amortization is matched to the recognition of gross profit.

Otherwise, deferred contract acquisition costs on investment contracts are amortized using an accounting method that recognizes acquisition as expenses at a constant rate applied to net policy liabilities.

*Property and Equipment.* Property and equipment are reported at cost, net of accumulated depreciation of \$1,915,000 and \$1,721,000 in 19X2 and 19X1, respectively, using the straight-line method of depreciation over their estimated useful lives.

*Future Policy Benefits and Expenses.* The liabilities for traditional life insurance and accident and health insurance contract benefits and expenses are computed using a net level premium method including assumptions as to investment yields, mortality, withdrawals, and other assumptions based on ABC's experience modified as necessary to reflect anticipated trends and to include provisions for possible unfavorable deviations. Reserve interest assumptions are graded and range from 3 percent to 10 percent. Benefit liabilities for traditional life insurance contracts include certain deferred profits on limited-payment policies that are being recognized in income over the contract term. Contract benefit claims are charged to expense in the period that the claims are incurred.

Included in contractholders' account balances is a provision for contractholder dividends. Benefit liabilities for contractholders' account balances are computed under a retrospective deposit method and represent contract account balances before applicable surrender charges. Contract benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related contract account balances. Interest crediting rates for universal life and investment products range from 5.50 percent to 9.25 percent. Benefits and expenses are charged against the account balance to recognize costs as incurred over the estimated lives of the contracts. Expenses include interest credited to contract account balances and benefits paid in excess of contract account balances.

*Income Taxes.* Federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. Deferred income taxes have been provided for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements using enacted income tax rates and laws.

*Reinsurance.* In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to other insurance enterprises or reinsurers under excess coverage and coinsurance contracts. The Company retains a maximum of \$400,000 of coverage per individual life. Amounts paid or deemed to have been paid for reinsurance contracts are recorded as reinsurance receivable.

*Insurance Premium Revenues.* Traditional life premiums, which include those products with fixed and guaranteed premiums and benefits and consist principally of whole life insurance contracts, limited-payment life insurance contracts, and certain annuities with life contingencies, are generally recognized as revenue when due. Revenues on universal life and investment-type contracts consist of contract charges against contractholders' funds for the cost of insurance, administration, surrender charges, actuarial margin and other fees. Accident and health insurance premiums are recognized as revenue pro rata over the terms of the contracts.

*Separate Accounts.* Separate account assets and liabilities generally represent funds maintained in accounts to meet specific investment objectives of contractholders who bear the investment risk. In-

vestment income and investment gains and losses accrue directly to such contractholders. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company. The assets and liabilities are carried at market value. Deposits, net investment income, and realized and unrealized capital gains and losses on separate account assets are not reflected in the Statements of Income of ABC and are reflected directly in separate account liabilities.

*Business Risks and Uncertainties.* The development of liabilities for future policy benefits for the Company's products requires management to make estimates and assumptions regarding mortality, morbidity, lapse, expense, and investment experience. Such estimates are primarily based on historical experience and, future expectations of mortality, morbidity, expense, persistency, and investment assumptions. Actual results could differ materially from those estimates. Management monitors actual experience, and where circumstances warrant, revises its assumptions and the related future policy benefit estimates.

The Company's investments are primarily comprised of fixed maturity securities, equity securities, real estate, and mortgage loans. Significant changes in prevailing interest rates and geographic conditions may adversely affect the timing and amount of cash flows on such investments, as well as their related values. In addition, the value of these investments is often derived from an appraisal, an estimate or opinion of value. A significant decline in the market value of these investments could have an adverse affect on the Company's balance sheet.

The Company regularly invests in mortgaged backed securities and other securities subject to prepayment and call risk. Significant changes in prevailing interest rates may adversely affect the timing and amount of cash flows on such securities. In addition, the amortization of market premium and accretion of market discount for mortgage backed securities is based on historical experience and estimates of future payment speeds on the underlying mortgage loans. Actual prepayment speeds will differ from original estimates and may result in material adjustments to amortization or accretion recorded in future periods.

## Note 2: Investments

The aggregate fair value, gross unrealized holding gains, gross unrealized holding losses and amortized cost for available for sale and held to maturity securities by major security type are as follows:

	December 31, 19X2 (Amounts in Thousands)			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<b>Held to Maturity:</b>				
Total corporate debt securities	<u>\$ 44,864</u>	<u>\$ 3,134</u>	<u>\$ (168)</u>	<u>\$ 47,830</u>
<b>Available for Sale:</b>				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 2,340	\$ 73	\$ —	\$ 2,413
Obligations of states of the U.S. and political subdivisions of the states	1,434	162	—	1,596
Corporate debt securities	142,075	7,109	(1,294)	147,890
Mortgaged-backed securities	<u>101,676</u>	<u>2,673</u>	<u>(355)</u>	<u>103,994</u>
Total	<u>\$247,525</u>	<u>\$10,017</u>	<u>\$ (1,649)</u>	<u>\$255,893</u>

Fixed maturities held in the "held to maturity" category are stated at amortized cost on the balance sheet.

Fixed maturities held in the “available for sale” category are stated at estimated fair value on the balance sheet.

The carrying amounts and estimated fair values of the company’s fixed maturity investments at December 31, 19X1 are as follows:

	<i>December 31, 19X1</i> <i>(Amounts in Thousands)</i>			
	<i>Amortized Cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	<i>Estimated Fair Value</i>
<b>Held to Maturity:</b>				
Total corporate debt securities	<u>\$ 46,310</u>	<u>\$1,970</u>	<u>\$(3,025)</u>	<u>\$ 45,255</u>
<b>Available for Sale:</b>				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 3,569	\$ 63	\$ (29)	\$ 3,603
Obligations of states of the U.S. and political subdivisions of the states	3,347	98	(1)	3,444
Corporate debt securities	138,831	1,818	(8,597)	132,052
Mortgaged-backed securities	<u>73,818</u>	<u>1,989</u>	<u>(343)</u>	<u>75,464</u>
Total	<u>\$219,565</u>	<u>\$3,968</u>	<u>\$(8,970)</u>	<u>\$214,563</u>

The amortized cost and estimated fair value of debt securities for each investment category, by contractual maturity, are as follows (expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties):

	<i>December 31, 19X2</i> <i>(Amounts in Thousands)</i>	
	<i>Amortized Cost</i>	<i>Estimated Fair Value</i>
<b>Held to Maturity:</b>		
Due in one year or less	\$ 1,612	\$ 1,700
Due after one year through five years	9,544	10,323
Due after five years through ten years	4,282	4,452
Due after ten years	—	—
	<u>15,438</u>	<u>16,475</u>
Other securities with multiple repayment dates	<u>29,426</u>	<u>31,355</u>
Total	<u>\$ 44,864</u>	<u>\$ 47,830</u>
<b>Available for Sale:</b>		
Due in one year or less	\$ 1,088	\$ 1,090
Due after one year through five years	21,753	22,626
Due after five years through ten years	83,057	86,244
Due after ten years	<u>26,826</u>	<u>28,478</u>
	<u>132,724</u>	<u>138,438</u>
Mortgaged-backed securities	101,676	103,994
Other securities with multiple repayment dates	<u>13,125</u>	<u>13,461</u>
Total	<u>\$247,525</u>	<u>\$255,893</u>

The Company owned \$22,318,000 and \$20,304,000 of fixed maturities considered below investment grade at December 31, 19X2 and 19X1, respectively. Investment grade is defined as “Baa” and higher on Moody’s ratings and “BBB” and higher on Standard & Poor’s bond ratings.

At December 31, 19X2 and 19X1, investments in bonds totaling \$1,247,000 and \$1,250,000, respectively, were on deposit with state insurance departments to satisfy regulatory requirements.

Proceeds, gross realized gains, and gross realized losses from the sales of available for sale securities follows:

	<i>December 31,</i>	
	<u>19X2</u>	<u>19X1</u>
	<i>(Amounts in Thousands)</i>	
Proceeds	\$181,137	\$50,561
Gross realized gains	5,132	769
Gross realized losses	(1,169)	(1,409)

The Company's equity investments in preferred stocks at December 31, 19X1, are carried at their estimated fair value of \$4,190,000. At December 31, 19X1 gross unrealized depreciation pertaining to equity securities was \$229,000.

Changes in the difference between market value and cost of investments were as follows (brackets denote excess of cost over estimated fair value):

At December 31, 19X2, excess of estimated fair value over cost for "investments held to maturity" and "investments available for sale" were \$ 2,966,000 and \$ 8,368,000, respectively.

The carrying amounts and fair values of the Company's investments in mortgages were as follows:

	<i>December 31, 19X2</i>		<i>December 31, 19X1</i>	
	<i>(Amounts in Thousands)</i>			
	<i>Carrying Amount</i>	<i>Estimated Fair Value</i>	<i>Carrying Amount</i>	<i>Estimated Fair Value</i>
Commercial	\$81,849	\$82,910	\$103,686	\$106,179
Residential	596	596	5,960	5,848
	82,445	83,506	109,646	112,027
Less allowance for mortgages losses	(3,187)	—	(2,954)	—
	\$79,258	\$83,506	\$106,692	\$112,027

Mortgages are stated at their aggregate unpaid balances, less an allowance for loan losses of \$3,187,000 (19X2) and \$2,954,000 (19X1). Activity in the allowance for mortgage loss is summarized as follows:

	<u>19X2</u>	<u>19X1</u>
	<i>(Amounts in Thousands)</i>	
Balances at the beginning of the year	\$2,954	\$3,200
Provisions for potential mortgage loan losses	668	3,145
Losses charged against the mortgage loan loss reserve	(435)	(3,391)
Balances at the end of the year	<u>\$3,187</u>	<u>\$2,954</u>

The Company's mortgage portfolio is monitored closely through the review of loan and property information such as debt service coverage, annual operating statements, and property inspection

reports. This information is evaluated in light of current economic conditions and other factors such as geographic and property-type loan concentrations. This evaluation is part of the regular review to determine whether adjustments to the allowance for potential loan losses are warranted. Management believes the mortgage loss reserve is sufficient to provide for potential loan losses. However, management cannot predict with assurance where the economy is headed or how the mortgage and real estate portfolios would be affected by various economic circumstances.

Impairment of loans having carrying values of \$4,524,000 in 19X2 and \$3,962,000 in 19X1 has been recognized in conformity with Statement of Financial Accounting Standards (SFAS) No. 114, *Accounting by Creditors for Impairment of a Loan*. The total allowance for credit losses related to those loans was \$900,000 and \$850,000 in 19X2 and 19X1, respectively. For impairment recognized in conformity with SFAS No. 114, the entire change in present value of expected cash flows is reported as bad debt expense in the same manner in which impairment initially was recognized or as a reduction in the amount of bad debt expense that otherwise would be reported.

The Company's mortgage loan portfolio is highly concentrated in the northeast section of the country. Approximately 58 percent of the Company's mortgages are in the Middle Atlantic region, predominantly New York City and State, with the remainder of the portfolio being fairly evenly dispersed among other geographic regions. The Company invests in a diversity of mortgages consisting of office, apartment, retail, industrial, and residential loans. Greater than 52 percent of these mortgages are invested in apartment and retail type investments. It is the Company's policy to generally obtain a first mortgage on properties for which the loan to value of collateral ratio is less than 75 percent.

At December 31, 19X2, the Company had six commercial real estate loans, with an aggregate principal balance of \$14,765,000 and accrued interest of \$1,950,000 which were 60 days or more delinquent. All of these loans were in process of foreclosure. Included in the commercial real estate loans are loans with an aggregate principal balance of \$8,092,000 that were non-income producing for the twelve-month period ending December 31, 19X2. At December 31, 19X2, the Company had established a mortgage loss reserve of \$3,187,000 as an allowance for potential mortgage losses.

Real estate acquired through foreclosure or "in-substance foreclosure" during the year at December 31, 19X2 and 19X1 amounted to \$410,000 and \$147,000.

### Note 3: Net Investment Income

Revenues in the accompanying statement of income for the years ended December 31, 19X2 and 19X1 include net investment income from the following sources:

	<u>19X2</u>	<u>19X1</u>
	<i>(Amounts in Thousands)</i>	
Fixed maturities	\$22,049	\$20,581
Preferred stock	—	736
Mortgage loans	9,035	11,763
Real estate	817	105
Policy loans	3,159	3,461
Short-term investments	411	456
Other	41	17
	<u>35,512</u>	<u>37,119</u>
Investment expenses	2,514	1,978
Net investment income	<u>\$32,998</u>	<u>\$35,141</u>



Net realized investment gains (losses) by class of investment are summarized as follows:

	19X2	19X1
	(Amounts in Thousands)	
Fixed maturities	\$5,192	\$ 340
Preferred stock	(324)	101
Mortgage loans	(632)	(3,132)
Real estate	16	—
Short-term investments	(2)	—
Other	(28)	21
Net realized gains or (losses)	<u>\$4,222</u>	<u>\$(2,670)</u>

#### Note 4: Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

*Short-Term Investments.* For those short term instruments amortized cost is a reasonable estimate of fair value.

*Investment Securities and Trading Account Assets.* For securities held for trading purposes and marketable equity securities held for investment purposes, fair values are based on quoted market prices or dealer quotes. For other securities held as investments, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

*Mortgage Loans on Real Estate and Policy Loans.* The fair value of mortgage loans on real estate is estimated using discounted cash flows. The fair value of policy loans is estimated by discounting the future cash flows using reasonable assumptions for mortality and repayments and using the current rates at which similar loans would be made to contractholders with similar credit ratings and the same remaining maturities.

The estimated fair values of ABC's mortgage loans on real estate and policy loans are as follows:

	19X2		19X1	
	(Amounts in Thousands)			
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Mortgage loans on real estate	\$79,258	\$83,506	\$106,692	\$112,027
Policy loans	43,549	60,000	51,013	59,000

#### Note 5: Income Taxes

Significant components of the provision for income taxes attributable to continuing operations are as follows:

	19X2	19X1
	(Amounts in Thousands)	
Current income tax expense	\$ 1,547	\$ 601
(Prepaid) deferred income tax (benefit) expense	(1,405)	540
Total income tax expense	<u>\$ 142</u>	<u>\$1,141</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows (in thousands):

	December 31,	
	19X2	19X1
	(Amounts in Thousands)	
<b>Deferred Tax Liabilities:</b>		
Deferred policy acquisition costs	\$13,131	\$12,297
Future policy benefits	—	512
Accrual of discount on bonds	924	1,982
Other	3,641	1,024
Total deferred tax liabilities	17,696	15,815
<b>Deferred Tax Assets:</b>		
Policyholder dividends	9,887	10,169
Future policy benefits	851	—
Deferred of policy acquisition costs	2,078	1,561
Investment valuation reserves	1,087	1,651
Retirement plan accruals	1,917	497
Investment income differences	574	556
Other	406	354
Total deferred tax assets	16,800	14,788
Valuation allowance for deferred tax assets	(516)	—
Net deferred tax assets	16,284	14,788
Net deferred tax liabilities	\$ 1,412	\$ 1,027

A reconciliation of the provision for federal income taxes as presented in the financial statements and income taxes calculated using the statutory corporate tax rate follows:

	19X2	19X1
	(Amounts in Thousands)	
Income from operations	\$2,396	\$2,870
Application of income tax rate	838	1,005
Small company deduction for life insurance companies	(694)	(496)
Policyholders' share of income (loss) in excess of (less than) dividends paid	(364)	752
Dividend received deduction	(3)	(50)
Change in valuation allowance	338	—
Other	27	(70)
Total tax expense	\$ 142	\$1,141

**Note 6: Financial Instruments With Off-Balance-Sheet Risk and Concentrations of Credit Risk**

ABC enters into interest rate swap programs for the purpose of minimizing exposures to fluctuations in interest rates for certain assets and liabilities held. The notional amount of interest rate swaps outstanding at December 31, 19X2 and 19X1 was \$500,000 and \$800,000, respectively. The amount at risk, on a present value basis, of terminating or replacing at current market rates outstanding interest rate swaps in a loss position at December 31, 19X2 was \$10,000. For 19X2 and

19X1, net gains (losses) of \$200,000 and \$(13,592), respectively, were recorded in connection with interest rate swap activity.

At December 31, 19X2, ABC held unrated or less-than-investment grade corporate debt securities of \$8,000, net of reserves for losses, with an aggregate market value of \$7,500. Those holdings amounted to 3 percent of ABC's corporate debt securities investments and less than 1 percent of total assets. The holdings of less-than-investment grade securities are widely diversified and of satisfactory quality based on ABC's investment policies and credit standards. ABC also invests in mortgage loans principally involving commercial real estate. At December 31, 19X2, 3 percent of such mortgages (\$10,000) involved properties located in California and Arizona. Such investments consist of first mortgage liens on completed income-producing properties, and mortgages on individual properties do not exceed \$5,000.

#### **Note 7: Derivative Financial Instruments Held or Issued for Purposes Other Than Trading**

The Company's principal objective in holding or issuing derivatives for purposes other than trading is asset-liability management. The operations of the Company are subject to a risk of interest-rate fluctuations to the extent that there is a difference between the amount of the Company's interest-earning assets and the amount of interest-bearing liabilities that mature or reprice in specified periods. The principal objective of the Company's asset-liability management activities is to provide maximum levels of net interest income while maintaining acceptable levels of interest-rate and liquidity risk and facilitating the funding needs of the Company. To achieve that objective, the Company uses a combination of derivative financial instruments, including interest-rate forwards, futures, forward rate agreements, swaps, options, caps, floors, and other conditional exchange contracts.

Interest-rate forward and futures contracts are commitments to either purchase or sell a financial instrument at a specific future date for a specified price and may be settled in cash or through delivery of the financial instrument. Forward rate agreements are forward-like contracts that settle in cash at a specified future date based on the differential between a specified market interest rate and a fixed interest rate applied to a notional principal amount.

An interest-rate swap is an agreement in which two parties agree to exchange, at specified intervals, interest payment streams calculated on an agreed-upon notional principal amount with at least one stream based on a specified floating-rate index. Interest-rate options are contracts that grant the purchaser, for a premium payment, the right to either purchase or sell a financial instrument at a specified price within a specified period of time or on a specified date from or to the writer of the option. Interest-rate caps and floors are option-like contracts that require the seller to pay the purchaser at specified future dates the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional principal amount.

Interest-rate forward and swap agreements are used to modify the repricing characteristics of interest-earning assets, while options, caps, floors and other conditional exchange agreements are used to limit the interest expense associated with the Company's liabilities.

Income or expense on derivative financial instruments used to manage interest-rate exposure is recorded on an accrual basis as an adjustment to the yield of the related interest-earning assets or interest-bearing liabilities of the periods covered by the contracts. If a derivative financial instrument that is used to manage interest-rate risk is terminated early or results in a single payment based on the change in value of an underlying item, any resulting gain or loss is deferred and amortized as an adjustment to the yield of the designated assets or liabilities over the remaining periods originally covered by the derivative financial instrument.

Deferred gains totaling \$675,000 at December 13, 19X2, resulting from terminated and expired option contracts are included in other liabilities and will be amortized as a reduction of interest expense from the Company's short-term liabilities over the next two years.

**Note 8: Liability for Unpaid Claims**

The liability for unpaid claims and claim adjustment expenses is based on the estimated amount payable on claims reported prior to the balance sheet date which have not yet been settled, claims reported subsequent to the balance sheet date which have been incurred during the period then ended, and an estimate (based on prior experience) of incurred but unreported claims relating to such period.

Activity in the liability for unpaid claims adjustment expenses for the Company's health and disability coverages is summarized as follows:

	<u>19X2</u>	<u>19X1</u>
	<i>(Amounts in Thousands)</i>	
Balance at January 1	\$81,638	\$104,222
Less: reinsurance recoverables	<u>4,021</u>	<u>13,831</u>
Net balance at January 1	<u>77,617</u>	<u>90,391</u>
Amount incurred	334,699	370,409
Amount paid, related to:		
Prior years	94,083	121,470
Current year	<u>248,721</u>	<u>261,713</u>
Total	<u>342,804</u>	<u>383,183</u>
Net balance at December 31	69,512	77,617
Plus: reinsurance recoverables	<u>4,115</u>	<u>4,021</u>
Balance at December 31	<u><u>\$73,627</u></u>	<u><u>\$ 81,638</u></u>

**Note 9: Reinsurance**

The Company utilizes indemnity reinsurance agreements to reduce its exposure to large losses in all aspects of its insurance business. Such reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Company as direct insurer of the risks reinsured. The Company evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers. The following tables includes premium amounts ceded/assumed to/from other companies.

	<u>Direct Amount</u>	<u>Ceded to Other Companies</u>	<u>Assumed from Other Companies</u>	<u>Net Amount</u>
	<i>(Amounts in Thousands)</i>			
<b><u>19X2</u></b>				
Premiums:				
Life insurance	\$2,090	\$ 560	\$3,330	\$4,860
Accident and health	1,440	1,290	—	150
Annuities	<u>3,130</u>	<u>—</u>	<u>70</u>	<u>3,200</u>
Total earned premiums	<u><u>\$6,660</u></u>	<u><u>\$1,850</u></u>	<u><u>\$3,400</u></u>	<u><u>\$8,210</u></u>
<b><u>19X1</u></b>				
Premiums:				
Life insurance	\$2,080	\$ 520	\$3,680	\$5,240
Accident and health	1,510	1,370	—	140
Annuities	<u>1,840</u>	<u>—</u>	<u>30</u>	<u>1,870</u>
Total earned premiums	<u><u>\$5,430</u></u>	<u><u>\$1,890</u></u>	<u><u>\$3,710</u></u>	<u><u>\$7,250</u></u>

**Note 10: Statutory Financial Information**

Under the law of ABC State, the state of incorporation, the maximum dividend that may be paid (without prior approval of the (State) Insurance Department), in any 12-month period is the

greater of (i) net investment income for the preceding calendar year or (ii) 10 percent of contractholders' surplus at the end of the preceding calendar year. In general, net investment income for dividend purposes is interpreted by the Insurance Department to be the statutory pretax net investment income including net realized capital losses but excluding net realized capital gains. The maximum permissible amount of dividends for 19X3, based on statutory net investment income for 19X2, is \$20,000.

The Company, which is domiciled in ABC State, prepares its statutory financial statements in accordance with accounting principles and practices prescribed or permitted by the ABC state insurance department. Prescribed statutory accounting practices include state laws, regulations, and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners (NAIC). Permitted statutory accounting practices encompass all accounting practices that are not prescribed; such practices differ from state to state, may differ from company to company within a state, and may change in the future. Furthermore, the NAIC has a project to codify statutory accounting practices, the result of which is expected to constitute the only source of "prescribed" statutory accounting practices. Accordingly, that project, which is expected to be completed in 19X3, will likely change the definitions of what comprises prescribed versus permitted statutory accounting practices, and may result in changes to the accounting policies that insurance enterprises use to prepare their statutory financial statements.

[*Note:* Although the following statutory financial information is not required to be disclosed in financial statements prepared in conformity with generally accepted accounting principles, insurance entities sometimes include such disclosures to facilitate use of those financial statements for purposes of filing with state regulatory authorities.]

The accounting practices of insurance companies are prescribed by certain regulatory authorities. Certain of these practices differ from the generally accepted principles used in preparing the financial statements of ABC.

The following reconciles ABC's statutory net income and statutory surplus and capital stock determined in accordance with accounting practices prescribed or permitted by the Insurance Department of Connecticut with net earnings (loss) and equity on a GAAP basis.

	<u>19X2</u>	<u>19X1</u>
	<i>(Amounts in Thousands)</i>	
Statutory net income	\$ 3,572	\$ 2,719
Adjustments:		
Future policy benefits and policyholders' account balances	572	894
Deferred policy acquisition costs	60	40
Deferred federal income tax (expense) benefit	(1,405)	540
Valuation of investments	115	270
Postretirement benefits	272	354
Other, net	(932)	(3,088)
GAAP net income	<u>\$ 2,254</u>	<u>\$ 1,729</u>
Statutory surplus and capital stock	\$65,388	\$54,505
Asset valuation reserves	(1,054)	(1,972)
Statutory surplus, capital stock and asset valuation reserves	(875)	(967)
Adjustments:		
Fixed income securities	(29,472)	(27,905)
Future policy benefits and policyholders' account balances	115	270
Deferred Federal income taxes	(1,412)	(1,027)
Valuation of investments	772	891
Deferred policy acquisition costs	39,818	39,445
Postretirement benefits	(2,272)	(2,354)
Other, net	(1,110)	(1,932)
GAAP equity	<u>\$69,898</u>	<u>\$58,954</u>

**Note 11: Commitments and Contingencies**

Future minimum rental payments, principally for administrative offices, under noncancellable operating leases at December 31, 19X2, are (in thousands): 19X3, \$1,113; 19X4, \$1,064; 19X5, \$1,011; 19X6, \$976; 19X7, \$976; and \$3,906 thereafter. Rental expense was \$1,164 in 19X2, and \$1,184 in 19X1.

ABC is named as defendant in a number of legal actions arising primarily from claims made under insurance contracts or in connection with previous reinsurance agreements. These actions have been considered in establishing its contract benefit liability. Management and its legal counsel are of the opinion that the settlement of these actions will not have a material effect on ABC's financial position or results of operations.

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## Comment Letter

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